BUSINESS WEEK

November 11, 1961

Fifty cents

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Capital spending for '62: up 4%

Page 70

Below: One successful rail merger behind him, Norfolk & Western's Stuart T. Saunders is rolling smoothly to another [Transportation]

In BUSINESS this WEEK

November 11, 1961

General business

BW

The departments

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Number 1680

Figures of the week

	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	144.6	158.1	161.2r	160.7*
Production					
Steel ingot [thous. of tons]	2,032	1,478	2,102	2,057r	2,044
Automobiles	125,553	145,537	102,098	159,136r	152,554
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$62,442	$70,243	$81,066r	$78,788
Electric power [millions of kilowatt-hours]	10,819	14,373	15,035	15,263	15,396
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,940	7,112	7,128	7,155*
Bituminous coal [daily av., thous. of tons]	1,455	1,359	1,463	1,437r	1,498
Paperboard [tons]	247,488	308,733	349,930	356,111	352,866
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	60	60	61	61
Carloadings: all others [daily av., thous. of cars]	47	44	46	47	47
Department store sales index [1947-49=100, not seasonally adjusted]	121	149	156	163	152
Business failures [Dun & Bradstreet, number]	198	317	330	304	344
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	87.6	91.6	90.9	89.1
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	76.0	73.2	74.3	74.6
Print cloth [spot and nearby, yd.]	19.8¢	18.1¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	$36.10	$28.33	$39.17	$34.50	$32.83
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$1.99	$2.07	$2.09	$2.11
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.19¢	33.56¢	33.60¢	33.60¢
Wool tops [Boston, lb.]	$1.96	$1.66	$1.80	$1.81	$1.81
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	54.80	67.99	68.47	69.87
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.09%	5.13%	5.13%	5.11%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3⅛%	3%	3%	3%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	60,433	61,542	63,920	63,375
Total loans and investments, reporting member banks	††	109,144	116,176	117,035	117,430
Commercial, industrial and agricultural loans, reporting member banks	††	32,962	32,954	33,082	33,269
U. S. gov't guaranteed obligations held, reporting member banks	††	29,687	33,642	34,327	34,087
Total federal reserve credit outstanding	26,424	28,662	29,237	29,544	29,404
Gold stock	21,879	18,159	17,350	17,302	17,302

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Employment [in millions]	October	62.2	67.5	67.0	67.8
Unemployment [in millions]	October	2.5	3.6	4.1	3.9
Consumer credit outstanding [in billions]	September	$34.1	$54.3	$54.9	$54.9
Installment credit outstanding [in billions]	September	$24.2	$42.5	$42.6	$42.6

* Preliminary, week ended November 4, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

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READERS REPORT

UHF vs. VHF

Dear Sir:

I congratulate you on your excellent article entitled, "TV's $2-million test for UHF" [BW Oct.14 '61,p115]. However, the last paragraph indicates that VHF is relatively free from electronic disturbances and is better for color reception.

Since all evidence gathered to date indicates that UHF transmission is superior to VHF, at least in regards to ghosting, airplane flutter, and interference from electrical noise, it is apparent that a typographical error is to blame.

Robert E. Lee
Commissioner
Federal Communications Commission
Washington, D. C.

▪ Yes, it was a typographical error.

Equal rights, unequal pay

Dear Sir:

In a recent issue you had an article about the career woman [BW Oct.7'61,p92]. I am very tired of hearing that women do not need the income that men do.

How many landlords have ever said to a woman supporting herself: "You are a woman, so your rent will be less."

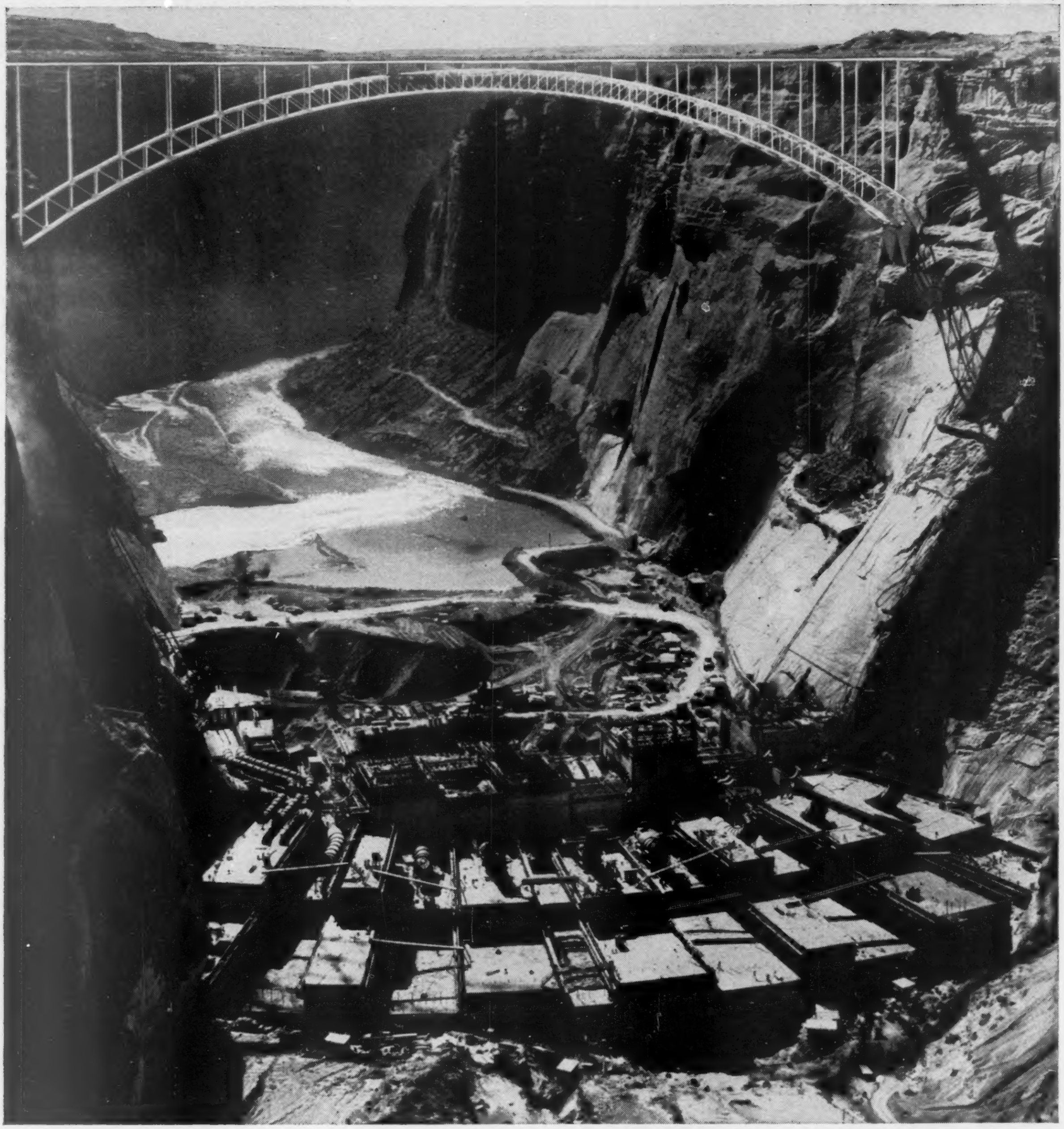
If you are a woman and you buy a suit, you are charged for alterations—a man is not. Even if you have the best credit in town and you happen to be a woman, try and get a loan.

Many women, even though they are "just secretaries," can and do hold down their boss' jobs while they are out of town on a trip.

And now, as for looking for a job, many of the women who are turned down because of age have been working all of their lives, but just because they happen to be 35 or 40 find it almost impossible to get another job. There is no excuse here that they have been away from the business world too long. A year ago I was looking for a new job and ran into that excuse, and I was just 28 then. Really, at 28 I am not ready to die just because some company thinks I'm too old.

The only thing that a woman in today's world gets cheaper is the amount of her income.

Suzanne Morrow
Des Plaines, Ill.



Business outlook

November 11, 1961

Employment rise spells modest gain in indicators

First it was September that was to supply proof of the recovery's vigor. Then it was October. Now make it read November.

You can see from the October figures on employment that the economic statistics for last month, as the Washington economists compile them, will have the same insipid flavor as those for September.

October employment set a record for the month. The rise of 800,000 to 67.8-million was substantially above seasonal expectations.

However, the gain in non-farm employment was little if any above normal. The better-than-seasonal performance was in agriculture where the showing had been below average the month before due to weather.

Unemployment last month was computed by the Census Bureau at 3,934,000—the first time in a year that it has been under 4-million.

That in itself provides some slight cause for jubilation.

Yet the decline of 151,000 from September to October was no larger than should be expected for the time of year. As a result, unemployment remained 6.8% of the labor force (seasonally adjusted).

The involuntary part-time workers declined slightly to 2.3-million. But labor analysts could see little improvement in hard-core unemployment.

New contracts for construction seen rising 8%

For now, and for several months to come, the rate of auto production will play a critical role in the economy. But **don't overlook the degree of support to be expected from construction.**

There's exceptional unanimity in the view of construction experts.

The latest concurrence comes from the F. W. Dodge Corp. whose annual forecast is for $40-billion of contract awards in 1962. That would be an increase of 7% even over 1961's brisk pace.

And it would represent the 17th consecutive yearly record.

Rising costs—for labor, materials, machinery—are expected to be a factor in next year's dollar figures on new structures as usual.

Thus, while the Dodge economists look for an 8% dollar rise for all types of buildings, they see the gain in physical volume (figured in terms of floor space) running no more than 6%.

Thus the construction boom will continue to be a very visible thing: Work on office buildings, schools, and apartment houses goes ahead at a phenomenal clip (with scant attention to murmurs of "overbuilding").

Next year, contracts for more than 2.3-billion square feet of building space will be awarded, according to the Dodge forecast.

Public spending on homes to rise

Almost 1½-billion square feet of new floor space will be in residential construction—an 8% gain over 1961. **Dodge economists foresee a start on 1,400,000 in new non-farm dwelling units during 1962.**

However, privately financed starts next year are not expected to rise much over the present rate—probably no more than 1,330,000.

Most of the pep will be provided by public housing as urban renewal projects get under way with the help of the 1961 housing act.

Dodge predicts a 14% step-up to 70,000 units for new publicly financed dwelling units in 1962; that would be a gain of 20,000 or 25,000.

Much new office floor space seen

Commercial construction should continue at the same buoyant rate as this year. **Office buildings, hotels, and shopping centers are slated to be top performers in this category.**

New floor space equaling this year's 286-million sq. ft. is predicted by Dodge.

Factory plans promise big hike in 1962 totals

Factory building is in for a spurt of activity next year, as manufacturers step up their capital spending (page 70).

Contracts for manufacturing buildings totaling 166-million sq. ft. of floor space will be let next year, says Dodge. The increase will lift activity 10% over the estimates for this year.

There was a pronounced upturn in planning for industrial plants last summer, when businessmen became more confident of the durability of the recovery. Lately, it has picked up more steam.

McGraw-Hill's Construction Daily, which keeps an eye on such things, reports that proposed new plants arriving at the planning stage during October doubled September's volume. At the same time, actual contracts rose to the highest volume since January.

Biggest industrial expansion is scheduled for the chemical process industries, which accounted for more than 40% of such contracts during the first 10 months of 1961.

Electric and gas utilities, second in dollar volume, took a giant step toward accommodating future needs. Contracts for new facilities awarded from January through October this year ran 53% ahead of the same period a year ago.

Food processing, textile, and aircraft industries are also laying plans for new construction. Contracts in each of these fields are running ahead of last year by substantial margins.

Heel-dragging is still evident in some industries with "unused capacity" problems. **Metalworking and wood products lag considerably** behind 1960.

Mid-Atlantic area gets biggest slice

Geographically, the biggest share of the new industrial construction—28% of the total—is going into the **Middle Atlantic states.** Contract awards in this region—$663-million in the 10 months—have already pulled ahead of 1960 by 75%.

Close behind is **the area from the Mississippi to the Rockies** with $604-million or almost 26% of contracts awarded so far this year.

The South, which earned second place in dollar volume last year, seems to be losing out; this year's $373-million for the 10 months is down from $539-million in the like 1960 period.

Money may limit building outlays

The construction outlook for next year, sunny as it now appears, is not entirely unclouded.

If industry steps up its capital spending as planned, demand for funds would tend to tighten the supply of loanable funds by the third quarter. This, in turn, may limit the money available for other types of construction.

Also, steel users will probably increase their borrowing early in 1962 to begin stockpiling against a possible strike. Moreover, a strike could bring shortages of structurals on commercial and industrial projects.

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BUSINESS WEEK

New trade policy coming?

U. S. faces problem of protecting its exports now that Western Europe has combined to form the Common Market

To deal with it, Administration advisers push the idea of a complete change in the Reciprocal Trade Act

They want to give the President broad authority to bargain for removal of tariffs on both sides

Within 18 months, if the Administration has its way, the U. S. will have a drastically liberalized trade policy —one that would put it in position to bargain down the common tariff that will surround the enlarged European Common Market now developing across the Atlantic.

With White House approval, Under Secy. of State George Ball already has launched the campaign to replace the Reciprocal Trade Agreements Act, which is due for renewal next June, with new legislation. At the National Foreign Trade Convention in New York last week, Ball proposed giving the President new authority to negotiate trade agreements on an across-the-board basis, in place of the current item-by-item procedure. He also suggested federal aid to U. S. industries that might be injured by freer trade.

Supporting statement. On the same day Ball spoke in New York, Democrat William L. Clayton and Republican Christian A. Herter presented a supporting statement to the Subcommittee on Foreign Economic Policy of the Joint Economic Committee of Congress. But Clayton and Herter went further, advocating that the U. S. form a "trade partnership" with Western Europe.

If Pres. Kennedy puts his weight behind this campaign in the next week or two, as his top aides are urging, the U. S. soon will be involved in as decisive a tariff debate as any ever witnessed in this country. Kennedy, however, might still leave one decision open for a while longer—whether to make an all-out fight to get new trade legislation by next June or to put off such a fight until 1963.

A delay of a year might dilute the controversy by stretching it out, but it wouldn't change the basic problem the U. S. is facing as a unified economy emerges in Western Europe. The problem is to bring our trade policy up to date.

Need for change. It is almost 30 years since Franklin D. Roosevelt and Cordell Hull launched the RTA program in an effort to expand U. S. exports from a depression low. By now, this item-by-item tariff swapping has outworn its usefulness and must be replaced—unless this country is prepared to see wide divergencies of commercial and economic policy develop between the two sides of the Atlantic. And such a development inevitably would undermine Western political unity.

Steps toward unity. The U. S. would not be up against this decision, of course, if it had not been for the Marshall Plan and the steady support Washington has given since that time to every European move toward economic integration (pictures, page 28).

First, the U. S. backed formation of the European Coal & Steel Community, next the abortive European Defense Community, and then the successful six-nation European Economic Community or Common Market. When Britain tried to get the Six to join in a Europe-wide free trade area, we leaned against London on the grounds that its scheme would widen the area of trade discrimination without widening the area of political unity. This year, when Britain finally decided to give up the seven-nation European Free Trade Assn. in favor of membership in the Common Market, Washington threw its weight behind this long-desired move.

Atlantic Common Market? The logical course now, say some U. S. trade experts (including a few in the Administration), would be for the U. S. to join with the expanding economic unit in Europe to form an "Atlantic Common Market." Short of that, we should simply get our trade policy liberalized to the point where our negotiators can offer European industry enough concessions to assure maintenance of our present large markets in Europe for manufactured goods, agricultural products, and raw materials.

Super-economies. However, most Administration officials feel this is not the answer. What is happening, they point out, is that two super-economies are coming to dominate the free world—the European Common Market and the U. S. common market, with Canada more closely attached to ours. Together these two huge economic units contain half a billion people and generate 90% of the industrial trade of the free world.

But the U. S. can't be concerned merely with the two giant common markets, ours and Western Europe's. We have to figure on numerous other countries of varying degrees of wealth and industrialization, ranging from Japan to the underdeveloped nations.

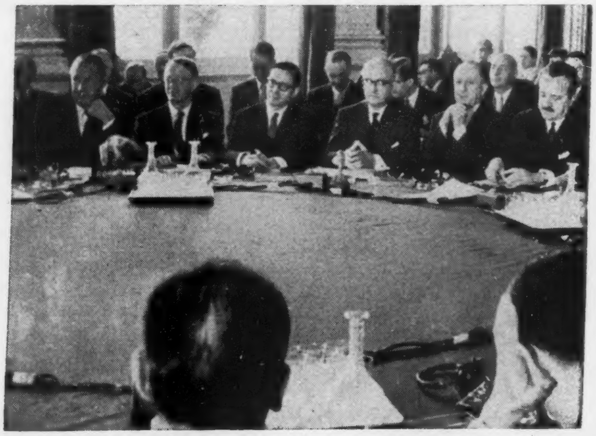
So the Administration is not planning on a customs union with Western Europe, or even an Atlantic free trade area. It wants to get in position to join Europe in scrapping tariffs on industrial goods over a

How Europe moved toward a 250-million-customer market

1948. Marshall Plan got European economic cooperation under way. Paul Hoffman (left) directed recovery program.

1951. Signing of treaty establishing European Coal & Steel Community was first step toward real economic integration.

1957. Rome treaty setting up six-nation Common Market took Western Europe much further toward economic unity.



1961. Britain finally made bid, at a meeting held in Paris last month, to become a member of Common Market.

period of five to 10 years. But, according to present thinking, it will insist upon generalizing these tariff concessions to the rest of the free world. And beyond that, it wants to have both sides of the Atlantic give duty-free entry to the products of the underdeveloped countries.

Partnership vs. union. An exclusive economic arrangement between Europe and North America is not needed, say State Dept. officials, as a base for the evolution of effective joint policies—political and military—among the Atlantic democracies. The original Common Market needed an exclusive economic base for its political alliance because none of its members was strong enough and large enough to stand on its own feet.

Still, even Administration officials closest to the formulation of the new policies concede that the U.S. is likely to appear to be taking much the same attitude toward the enlarged European Common Market that the British took toward the Six. There will be charges that we are trying to get all the commercial benefits of membership in the Common Market without accepting the political responsibilities.

Details undecided. The details of the new policy have not been filled in. But, as things look now, the President will ask for broad authority to offer reciprocal tariff reductions on broad categories of industrial goods instead of item by item. Whether he will ask for authority to reduce tariffs by, say, 20% a year, averaged over a broad category, or by some other method has not been settled. Neither has the time period over which the total reductions would take place been decided, although five to seven years is the best bet. The categories of goods for which such authority would be requested have not been set either—although textiles already are being handled separately and presumably would not be included.

To help injured domestic industries or areas, the government would retrain and relocate workers, accelerate tax write-offs on obsolete machinery, and grant special credits for plant modernization.

Time factor. The argument over whether or not to seek new trade legislation next year seems to be just about settled in favor of going ahead. One reason some officials are arguing for delay is the fear that a battle over U.S. trade legislation next year would be going on simultaneously with the negotiations between Britain and the Six—and both might be held up.

But there is another fear—that the

next Congress may well be even more protectionist than this one. There is also the feeling among some Congressional free traders that "education" of the Congress is best achieved in the heat of debate not through academic discussion. In fact, the Democratic leadership on Capitol Hill would be very reluctant to fight a bloody battle to renew the Reciprocal Trade Act, which it regards as a useless and obsolete law, for one year.

U. S. industry still has to be heard from, of course. And given the fact that manufacturing costs are generally higher here than in Western Europe, most U. S. companies undoubtedly would prefer to leave things as they are. Then they could retain the present levels of protection, while continuing to invest inside Europe's common-tariff wall. This investment puts a strain on our balance of payments (right), but freer trade probably would do the same.

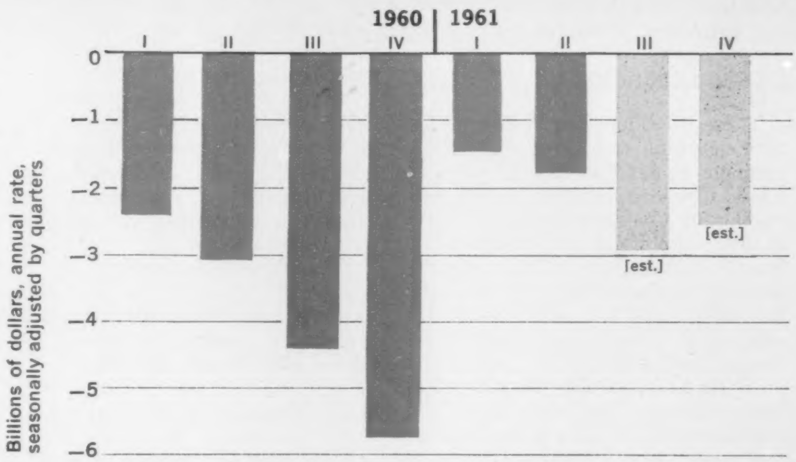
Outdated law. In any event, it now seems clear that the Administration will not ask for renewal of the old Reciprocal Trade Act. If there were any remaining doubts about this they have been banished by the dismal failure of the current General Agreement on Tariffs & Trade negotiations to make significant progress. It is difficult for the U. S. to offer any significant tariff concessions under RTA. Then, the Europeans are finding it almost impossible to negotiate concessions on an item-by-item basis.

Beyond that, the momentous changes in the economy of Europe being worked by the emergence of the Common Market make it difficult or impossible for U. S. negotiators to determine where U. S. export interests may lie in the future and what concessions to bargain for.

Long-term threat. The expanding Common Market represents both a threat and an opportunity, according to U. S. officials. The short-term threat to U. S. exports is not viewed as serious. But, longer term, the consolidation of the wider European market could pose as serious a threat and problem for the U. S. as the emergence of the Six did for Great Britain.

Finally, if European growth rates continue significantly higher than ours, they will exert continuing suction upon U. S. private capital as long as the two markets remain separated. Thus, there would be duplication of industrial facilities in Europe and the U. S., while at the same time there would be less investment capital available for the underdeveloped nations.

The balance of payments deficit – up again



Data: Dept. of Commerce; Business Week estimate

Turn for the worst in payments trend

First-half improvement turns out to have been based on fortuitous circumstances, rather than a firm improvement. The Administration prepares for stern test of dollar

The Kennedy Administration is marshaling its defenses for the first real test of the strength of the dollar since it took office.

When the official figures come out in the next week or so, they will show that the deficit in the U. S. balance of payments, which shrank drastically in the first half of the year, is widening again (chart). Initially this will mean a fresh rise in foreign holdings of dollars, but it could touch off a new crisis of confidence and a resumption of the drain on the U. S. gold stock.

A new dollar crisis is still only a threat, but it's one that the Administration is taking seriously. It has been working on measures aimed at providing additional defenses against a dollar crisis and a run on gold.

On the defensive. Already, pressure on the dollar is building up. In London, the price of gold has climbed to $35.20 an oz., which is far below the $40 quoted during the "gold rush" in October, 1960, but well above the level maintained during the spring and early summer.

Bankers here and abroad report that the dollar is "on the defensive" for the first time since Pres. Kennedy launched his psychological counter-offensive last February. They blame the growing distrust chiefly on the Administration's fiscal policies, particularly its failure to hold down the federal budget deficit.

This criticism was aired, both publicly and privately, at the Vienna meeting of the International Monetary Fund in mid-September, and many American bankers came away with the feeling that confidence in the dollar was fading. The criticism is denied in Washington—and by most Europeans. In fact, the feeling is that American bankers played a leading role in talking down the dollar.

According to one highly placed Federal Reserve official who has been in close contact with foreign central banks, Europeans are impressed with Washington's efforts to cope with its problems. And a leading international banker states that

foreign authorities are eager to cooperate with the U. S., just as they did with Britain, because they now feel that the Administration is taking corrective measures.

I. Lid on spending

There is evidence of Washington's new determination. Pres. Kennedy's message to his Cabinet demanding a hold-down on spending in 1962 and calling for a balanced budget in 1963 is one example; it was designed, at least in part, to reassure foreign holders of dollars. And European authorities also have been encouraged by official demands for restraint in wages and prices.

The Administration also has other, more tangible, defenses against a dollar crisis. During the first half of the year, when the improvement in the deficit—with pressure turning on the pound sterling—gave it a breathing spell, it began developing a two-pronged plan to guard against a crisis. Its strategy involved both short-term and long-term measures. The short-term steps are aimed at shoring up confidence, while the long-term steps have a chance to correct the basic imbalance in the deficit.

Moment of truth. These measures will now be given a test. According to preliminary official estimates, the deficit in the balance of payments during the third quarter is around \$3-billion at an annual rate. This represents some improvement from the deficits of \$3.9-billion in both 1959 and 1960 and the \$3.5-billion in 1958, but it is a big increase from the annual rate of \$1.7-billion in 1961's first half.

Officials are hoping that the deficit will narrow again in the fourth quarter, so that the deficit for the year is no more than \$2.2-billion. But if confidence should weaken, a new outflow of short-term funds could materially worsen this estimate.

Building confidence. This is where the Administration's short-run measures will come into play. As officials describe it, the "confidence factor" is the most difficult to treat, simply because it involves emotional rather than economic forces. They recognize, for example, that the price of gold in London's free market and the size of the U. S. gold stock are "symbolic" yardsticks.

U. S. officials have been concentrating on getting cooperation from other nations in defending these symbols. The U. S. expects help from the payments-surplus nations of Western Europe to hold down any rise in the price of gold and any sizable drawings on the U. S. gold stock. In fact, one official states flatly that "gold in London won't be allowed to get up to \$40 an oz."

In its effort to gain the cooperation of Western Europe, the U. S. is making use of the forum provided by the Organization for Economic Cooperation & Development (OECD). Administration officials report that the monthly discussions have led to a broadening of the informal agreements among major nations to lend support to currencies that face short-term pressures.

This cooperation bolsters the defensive measures adopted by central bankers at the Bank for International Settlements meeting in Basle, Switzerland [BW Sep.16'61,p76].

II. Defense in depth

This new international defense in depth has emerged also as a result of other measures to strengthen the dollar. The U. S., for example, is now operating in foreign exchange markets in cooperation with other countries—principally Germany and Switzerland—to limit speculative pressure on the dollar.

Long-range steps. The major defense, though, is long-range. In the last few weeks, the U. S. has taken several steps to cut down on the deficit in the balance of payments:

- The new export credit guarantee program under the Export-Import Bank [BW Nov.4'61,p110].
- The agreement with West Germany to buy an increasing amount of U. S. military goods and for the U. S. to pare its military expenditures overseas. By similar arrangements with other countries, the U. S. plans to cut its military deficit from the present \$3-billion to \$1.5-billion.
- The proposal to revise depreciation schedules on equipment and to provide a tax incentive to industry, including companies in the export trade.
- The agreement "in principle" to strengthen the resources of the IMF by getting the major trading nations to agree to furnish standby credits, which could be used by any of the participants as a second line of defense against short-term strains. It is expected that this measure will be in effect some time after the turn of the year.

Domestic scene. The Administration is assuming that the domestic economy will expand. This may increase the demand for imports and could conceivably result in a worsening of the deficit next year. At the same time, expansion of the economy should assure a balanced budget, thus quiet European fears of renewed inflation. Moreover, it will mean higher interest rates, which should attract capital from abroad.

III. Downtrend

The Administration fully expected the deterioration in the trade balance that now is showing up. It attributes the first-half improvement to cyclical factors rather than a fundamental improvement.

During the first half, when U. S. industry was suffering after-effects of the recession, imports dropped to an annual rate of less than \$14-billion. Meanwhile, exports soared because of boom conditions aboard, running at a rate of about \$20-billion. This trade surplus of almost \$7-billion offset most of the deficits incurred in other areas.

Now, with the domestic economy expanding, imports are climbing; in the third quarter, they hit an annual rate of more than \$15-billion. But exports are dropping, partly because the advance in Western Europe has slowed.

In the third quarter, the trade surplus fell to only \$4-billion, which is not enough to make up for the deficits on government account (for military and economic aid) and private account (direct and indirect investment abroad).

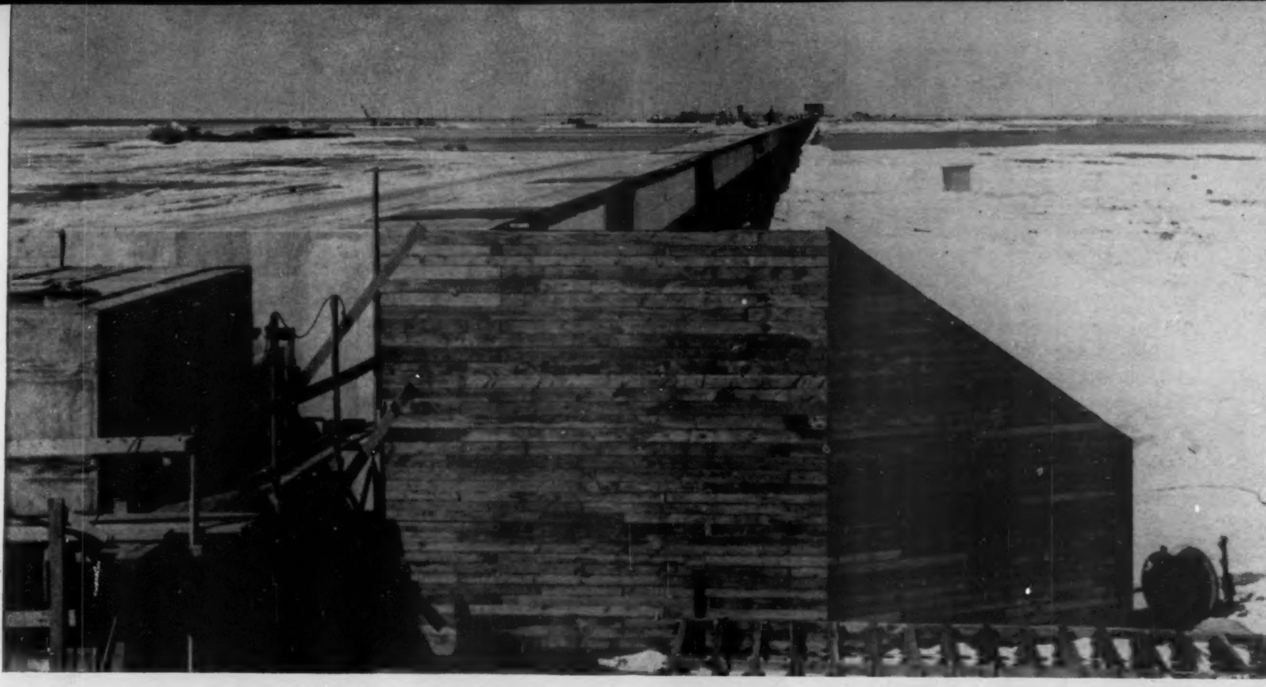
Outlook. The big uncertainty concerns the 1962 outlook. Some private analysts predict a deficit of more than \$3-billion, which would almost certainly arouse concern abroad.

U. S. officials think, however, that the measures they have adopted should begin making themselves felt during 1962, and before the year is over they are looking for equilibrium. As they see it, the current widening of the gap may prove just as temporary as the fortuitous shrinkage in the first half.

Nothing safe. One intangible protection against a dollar crisis, however, is the fact that no currency is regarded as entirely safe. Investors have doubts about the German D-mark, because of the Berlin crisis; similarly, the French franc has its risks, because of the Algerian situation and the uncertainty surrounding a successor to de Gaulle.

Even Switzerland, the traditional haven for foreign capital, is no longer considered impregnable, because of the fears of war in Europe. In any case, the Swiss can not absorb a large amount of foreign funds.

Thus, when weighed against other strong currencies, the dollar is not without strength. In fact, one Fed official points out that the dollar has benefited because of the relative risks in holding other currencies.



Complex setup for new atmospheric tests on Eniwetok—such as used earlier (above)—might take six months to prepare

Hurdles for U.S. atmospheric tests

Defense Dept. and AEC act to carry out Kennedy's order to prepare for resuming bomb tests in atmosphere "in case," but there are many tough problems to be solved

"As a matter of prudence," Pres. Kennedy last week ordered the Atomic Energy Commission and the Defense Dept. to make the necessary preparations for resuming U. S. atmospheric bomb testing. This week the complicated machinery involved in the preparations was rumbling into action.

In the weeks ahead, one of the Defense Dept.'s chief duties will be to set up a priority schedule for bomb tests. It must decide: Which tests, from a military standpoint, should be run off first? Which could answer some of the perturbing questions about possible technical advances? And which would supply the freshest strategic information?

On AEC will fall the task of assembling the actual test devices and preparing new ground monitoring facilities to take the place of outdated equipment on Eniwetok, scene of the last U. S. atmospheric tests in 1957-58 (picture).

Pacific problems. Installations at AEC's Nevada proving grounds are already fairly well in place to handle any small bomb test in the kiloton range called for there. But in the Pacific, some tough questions require answering.

Eniwetok has become a Navy-manned monitoring station for the Pacific Missile Test Range. Costly radar and telemetering equipment is already being installed there. If Eniwetok is again to be used as a nuclear test site, what about this equipment? Would it be better, from the standpoint both of money and time, to find new atmospheric proving grounds elsewhere? If so, where?

Both AEC and the Defense Dept. have clamped on the strictest kind of security as to decisions already made in this area. But unofficial reports have it that investigating teams have been out in the Pacific seeking answers, and are now back home, pondering what they have seen.

In any event, both AEC and Defense will be hard pressed to be ready for resumed testing—even if a decision is delayed up to six months [BW Nov.4'61,p34].

Data on Russians. The President has said that he wants more time to evaluate the military implications of the still-continuing Soviet atmospheric tests before he gives a green light to resumption of U. S. atmospheric testing. He has asked U. S. scientists for as perfect as possible a reconstruction of what those tests aimed to prove.

There is reason to believe, however, that both the Pentagon and AEC are puzzled by what they have learned from an analysis of the first Soviet shots, in early September. There is conjecture that the early Russian tests were fairly straightforward—aimed at developing small tactical weapons, a field in which the U. S. is believed to hold a commanding developmental lead.

Then the pattern changed. Most U. S. experts agree it is still too early to come up with any significant interpretation on the late September and October Soviet tests.

Fears. Obviously, there is a fundamental fear in the Pentagon and among most AEC scientists that U. S. supremacy in nuclear weapons technology may be in jeopardy. Among the guesses on what the Soviets were up to in October: de-

veloping a nuclear anti-missile missile; developing a more versatile (perhaps maneuverable) warhead for ICBMs; developing a second-generation nuclear warhead of lesser weight and higher yield.

The largest thermonuclear bomb the AEC has ever admitted testing was one of 15 megatons, in 1954. Since then, there have been many engineering and design changes in warheads—checked out so far only in laboratories and in theory.

This is the strongest argument of those favoring immediate resumption of U. S. atmospheric testing. An important part of the U. S. stockpile of nuclear weapons is new and has never been tested operationally; and it's impossible to think of doing such tests underground.

A hard core in the scientific community challenges this view. But its argument that U. S. nuclear know-how is already adequate for military purposes is harder to defend every day that Soviet tests go on. Both Democratic and Republican leaders now support resumption of atmospheric testing, backing their case with hard-to-deny reports that U. S. underground tests (four have been announced so far) have proved less fruitful than expected.

World politics. Diplomatic and propaganda implications will certainly figure in Pres. Kennedy's decision. But as things stand, they're clearly secondary to military and domestic political considerations.

The Administration sought initially to capitalize on propaganda aspects of the Soviet tests by playing up fallout dangers. So, to some extent, the U. S. will be damned by its own propaganda when and if it gives AEC and the Pentagon the nod.

Presidential advisers who favor resuming atmospheric tests argue that the fact that the Soviets started first and on such a big scale will take some stigma off U. S. tests.

Neutralist governments such as India see all nuclear testing as bad. They have said, in effect, a plague on both your houses. So, it is argued, the worst of the neutral reaction to U. S. testing may be over.

The countries most worried about fallout—Canada, the Scandinavian nations, and Japan—are allied more or less directly with the U. S. and can be expected to show understanding of military needs. Japan, because of its special historical perspective, is bound to react unfavorably, but this is not expected to affect its basic alliance with the U. S.

Less concern. Pres. Kennedy is now less inclined to worry about "world opinion," and particularly neutral opinion, than before the Belgrade conference. He was bitterly resentful of the failure of the neutrals to denounce Soviet resumption of atmospheric tests in stronger terms. He was also annoyed by their tendency not to see much difference between Soviet atmospheric and U. S. underground tests.

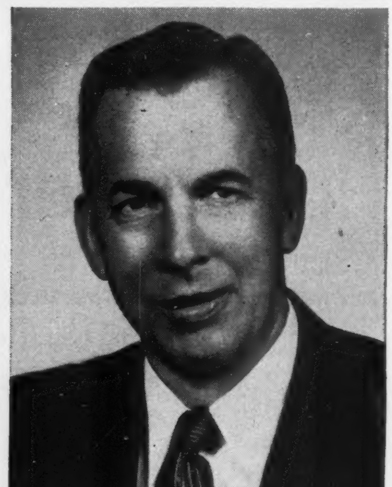
The President's attitude is that if these governments are applying a double standard, there is no pleasing them at all. If they are not, they should understand why the U. S. is forced—if it is forced—by Soviet testing to resume its own testing.

What tests? When and if U. S. atmospheric testing is resumed, Pentagon and AEC guesses are that tests will have three major aims:

- To seek a greater yield for given weights of both strategic and tactical weapons. On a lower priority, apparently, are tests to perfect a so-called "clean" bomb.
- To push development of an anti-ICBM system. The Army's Nike Zeus is to be tested next summer at Kwajalein Island in the Pacific. Present plans do not call for an atomic warhead on the Zeus, but these presumably could be revised.
- To test the effects of nuclear weapons—for example, the impact of upper atmospheric detonations on communications and radar, and the effect of megaton-type blasts on underground ICBM launching silos.

Tests of the much-publicized, anti-personnel "neutron" bomb—which theoretically would reduce the blast damage but would shoot out death-dealing rays—do not figure in U. S. nuclear test plans at the present time.

James E. Goodman



Edward N. Cole

Up the ladder at GM

A shuffling of top officers last week gives General Motors Corp. a new executive vice-president and puts a man fresh from an important car division on the board of directors. Four top changes and a host of minor ones come with the retirement of Exec. Vice-Pres. Sherrod E. Skinner.

James E. Goodman (left), director and group vice-president in charge of the body and assembly divisions group since 1958, succeeds Skinner as head of all automotive and parts divisions. Edward N. Cole (right), vice-president and Chevrolet general manager since 1956, was elected a director, member of the executive committee, and put in charge of car and truck divisions—a post vacant since 1959.

Filling Cole's post at Chevrolet is Semon E. Knudsen, general manager of Pontiac and a vice-president since 1956. Knudsen is the son of the late William S. Knudsen, a pioneer Chevrolet builder and GM president from 1937 to 1940.

Elliott M. Estes succeeds Knudsen as Pontiac general manager. Estes, formerly chief Pontiac engineer, also was elected a vice-president.

Elevation of Cole and Knudsen could be preliminary maneuvering to fill Exec. Vice-Pres. Cyrus R. Osborn's post when he retires next summer.

Why sales of imported cars are dragging

1958	86%	of owners of imported cars said their next car, too, would be an import
1961	51%	of those who had meanwhile bought a new car actually bought another import

24% had bought an American-made standard car

25% had bought an American-made compact car

	Compact	Standard
They needed a larger car	37%	42%
Repairs were too difficult to get	30	28
Imported car needed too many repairs	26	23
Import gave uncomfortable ride	10	19
Gas mileage was disappointing	5	7

Note: Figures in column at right add to more than 100% because some respondents gave more than one reason
Data: National Automobile Dealers Assn.

U.S. goes one better

Imported cars plug economy, but Detroit's small cars offer economy plus family size. That's big reason why many imported car owners are switching, NADA survey finds

The table above shows why sales of imported automobiles in the U. S. this year are likely to be less than 400,000—when only two years ago they totaled 614,000. There are indications that nearly one-half of the imported car owners who have traded cars in the past two years have gone back to a U. S.-made auto.

There has been no doubt in the minds of Detroit market researchers that the introduction of smaller cars by General Motors Corp., Ford Motor Co., and Chrysler Corp. late in 1959 stunted the growth of the market for imported cars. The fancy sales figures rung up by compact cars in 1960, and the simultaneous decline of import sales suggested more than a coincidence.

Now there's some statistical evidence of the relationship.

The National Automobile Dealers Assn. in 1958 asked owners of imported cars: "Do you think that your next new car will also be an imported car?" And 86% answered "yes." NADA surveyed the same group this year and found that 46% had traded their imported car in the intervening period. But nearly one-half of these, 49%, didn't buy another imported make; they bought a U. S.-made car.

Economy, plus. What may stir some discussion in auto circles is why those people went back to an American car. The big reason for the surge in small-car sales, Detroit market researchers insist, is the desire for economy—not a low purchase price necessarily, but a low operating cost. This was confirmed by the NADA survey three years ago, when 88% of those responding listed "cheaper to operate" as the main reason for buying the imported car.

But at least in the case of the imported car buyers who switched, economy wasn't desired above all other things; they bought American to get more room. However, that only confirms another impression of the manufacturers: that many Americans wanted an economical car that was family-sized.

The best-selling import, Volkswagen, has an over-all length of 155 in. on a wheelbase of 89 in., and also is a four-seater. The top-selling U. S. small cars, Ford's Falcon and American Motors Corp.'s Rambler, are both more than 180 in. long on wheelbases of 108 in. and 109 in.; and seat five or six persons comfortably in addition to hauling far more baggage than their smaller foreign competitors.

Repair question. The importers of foreign-made cars have been working hard at training service personnel in this country and establishing spare parts distribution. They like to think they have made substantial progress. The leading importers undoubtedly have, but the NADA survey tends to prove that over-all, the efforts have not been enough. Taken together, the frequency of repairs and difficulty of getting repair work done was the greatest single reason why import owners switched to U. S. cars.

But, as you might expect, those owners of imported cars who have the same car now as they did three years ago (54%) are satisfied with the service available. Sixty-one percent of them reported they had very little repair work done; another 30% reported only a moderate amount. As to cost of repairs, 43% reported they were inexpensive, and 45% called them moderately expensive.

And this happy group of imported car owners had no complaints about the quality of repairs; 70% reported them as good, and 21% said they were fair. An interpretation could be that the import owners who traded because of dissatisfaction with service and repairs had bought makes of cars for which widespread service facilities never were set up.

Repeat. The NADA survey, as far as is known, is the first that has gone back to the people who were queried several years ago—when practically every public opinion research outfit in the country had a poll going on why people were buying foreign-made cars.

In 1958 NADA sent a questionnaire to 10,000 owners of imported cars, and got replies from about 4,700. The same 10,000 were queried this year. Although the return was smaller, 2,700, the distribution of the sample was close enough to the 1958 pattern to make the results statistically comparable.

Perched atop the tracks

Pan Am squeezes into New York skyline

Completion of the world's largest commercial office building near Grand Central Station will add a city of people to an already congested area

Putting up the world's biggest commercial office structure on one of the most crowded, constricted, complicated, and precious sites anywhere involves some doing.

Even so, New York's $100-million Pan Am Bldg. (pictures), which will be rivaled in office space only by the Pentagon, is emerging smartly out of its 3½ acres wedged between Grand Central Terminal and a cluster of high buildings.

This week, because of a complicated but precise materials delivery schedule made necessary by the lack of storage space in the Grand Central area, the 25th story of steel was put in place right on time by U. S. Steel Corp.'s American Bridge Div. The steel and other materials—stockpiled in New Jersey—get to the building site on trucks and on railroad flatcars. Both carriers have to adhere to rigid timetables in order to avoid unimaginable jams among the concentrations of people, cars, and buildings in the Grand Central area.

Foundation problem. Getting materials in there on schedule was only one of the problems builder Erwin Wolfson faced when he started construction a year ago last June [BW Sep.10'60,p110]. For one thing, the 58 stories of the Pan Am Building are rising over the tracks of Grand Central Station, thus in a sense are being built on air.

Wolfson's construction company, Diesel Construction Co., Inc., and its president, Carl A. Morse, picked James Ruderman, a structural engineer, to cope with the foundation problem. Ruderman's answer was to burrow down to bedrock below the station, where he installed platforms of steel and concrete. To eliminate vibration from trains, Ruderman added layers of lead, steel, and asbestos to the platforms. The supporting columns of the building were erected on these "mats."

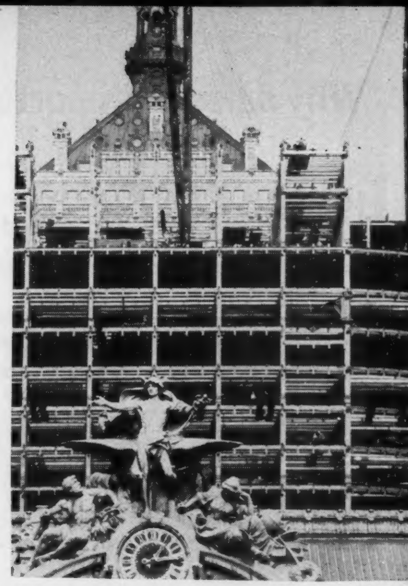
Irate commuters. Over-all, 83 of these columns were driven between the station's tracks and through passenger platforms—a construction that has invoked the wrath of commuters who have to line up in single file on narrow platforms when they emerge from trains. Another reason for the crowding is that Ruderman made use of the 109 columns that supported the former six-story Grand Central Terminal office building that occupied the site.

But it isn't only the crowding that commuters resent. Many say that building debris and even tools have struck them as they boarded trains. Many of them simply don't welcome the additional traffic—estimated at 25,000 people—that the new building will bring to the area.

The miracle is that Wolfson hasn't had more complaints. From the beginning, there was strong opposition to such a large office structure in an area that boasts the heaviest concentration of traffic anywhere. With hundreds of trains arriving and departing daily beneath the site, thousands of cars and trucks creeping by on the surrounding streets, the site also is girdled a story above the street by twin roadways that are extensions of traffic from Park Avenue. So far, Wolfson and Morse have not blocked this traffic.

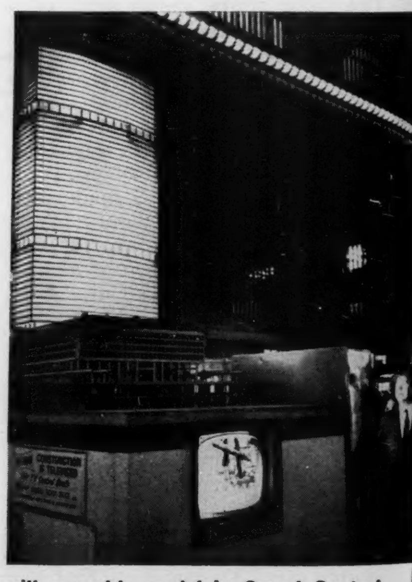
Chief tenant. When it is finished in late 1962, the Pan Am Bldg. will be an octagon-shaped structure flanked by luxury stores and illuminated at night by $250,000 worth of lighting. Its chief occupant will be Pan American World Airways, which—because it is taking 600,000 sq. ft. of the 2.4-million sq. ft. available—will have its name appear at the top in 30-ft. letters. A parking garage will have room for 400 cars.

At the base will be a pedestrian thoroughfare two blocks long with sidewalks 45 ft. wide—instead of the present 10 ft. Says Wolfson, conscious of his critics: "Rapid population dispersal is important."



New York's Pan Am Building . . .

adds 25th floor of steel . . .



will resemble model in Grand Central

Octagonal shape begins to show as $100-million Pan Am Bldg. rises in one of Manhattan's most congested areas

Pennsylvania's Chmn. James M. Symes

N. Y. Central's Pres. Alfred E. Perlman

Two largest railroads push merger plan

Pennsylvania and New York Central—impressed by the way Norfolk & Western is moving smoothly toward union with Nickel Plate—agree to apply for merger

The log jam that has halted railroad mergers in the Northeast apparently broke this week. The Pennsylvania and New York Central railroads have agreed once again to apply to the Interstate Commerce Commission for permission to merge.

When the joint application is filed, the Central can be expected to withdraw its opposition to mergers between the Chesapeake & Ohio and Baltimore & Ohio as well as the Norfolk & Western and Nickel Plate (page 166). This, in turn, will mean the end of practically all railroad opposition to these consolidations. It will create a climate within the industry in which the commission might well be able to approve them along with the Pennsy-Central marriage. In the end, three huge, relatively well-balanced systems in the Northeast could result.

Deal off. The Pennsylvania and New York Central, the country's two largest railroad systems in terms of assets, started examining a possible marriage in October, 1957. After 14 months of studies, which showed potential savings of more than $100-million a year once economies had been effected, the Central called the whole thing off.

At the time, Alfred E. Perlman, Central president, indicated that since a merger of the Pennsy with his road would result in such a huge network of lines dwarfing all the competition, ICC would almost certainly never approve it. The Central then proceeded to look for other marriage partners—without success.

New alignments. The 14 months of negotiations between the two, however, caused other, competing roads to study defensive alignments of their own. Once started, these developed into a rush to merge. It was no longer a case of two giants surrounded by the weak and the small. The C&O and N&W each began to study mergers aimed at creating new giants.

Moreover, the C&O and N&W make up in net profits what they lack in miles of track. For the first nine months this year, the Pennsy lost $12.8-million and the Central lost $24.8-million. By contrast, the N&W earned $40.9-million for the first nine months. The C&O, which reports earlier than any other road, shows a 10-month profit of $22-million.

Probably the event that did most to push the Pennsy and Central together again was the manner in which the Norfolk & Western was eliminating opposition. When its president, Stuart T. Saunders, began to negotiate with the smaller and weaker lines that had been objecting to his merger, he not only turned them into supporters; he also raised the specter that they might funnel traffic away from the Central and Pennsy and to the merged N&W-Nickel Plate. Under such conditions, the Central almost certainly could not survive alone for long. The Pennsy would last longer, but in the end it, too, would suffer badly.

Terms. The renewal of talks between Perlman and Pennsy Chmn. James M. Symes reportedly started within the past two weeks. In September, Symes testified at a C&O-B&O hearing before ICC that he was ready to renew merger talks with the Central. Perlman promptly replied that he wasn't interested.

Since then, however, the N&W hearings have been held and conditions in the industry have changed.

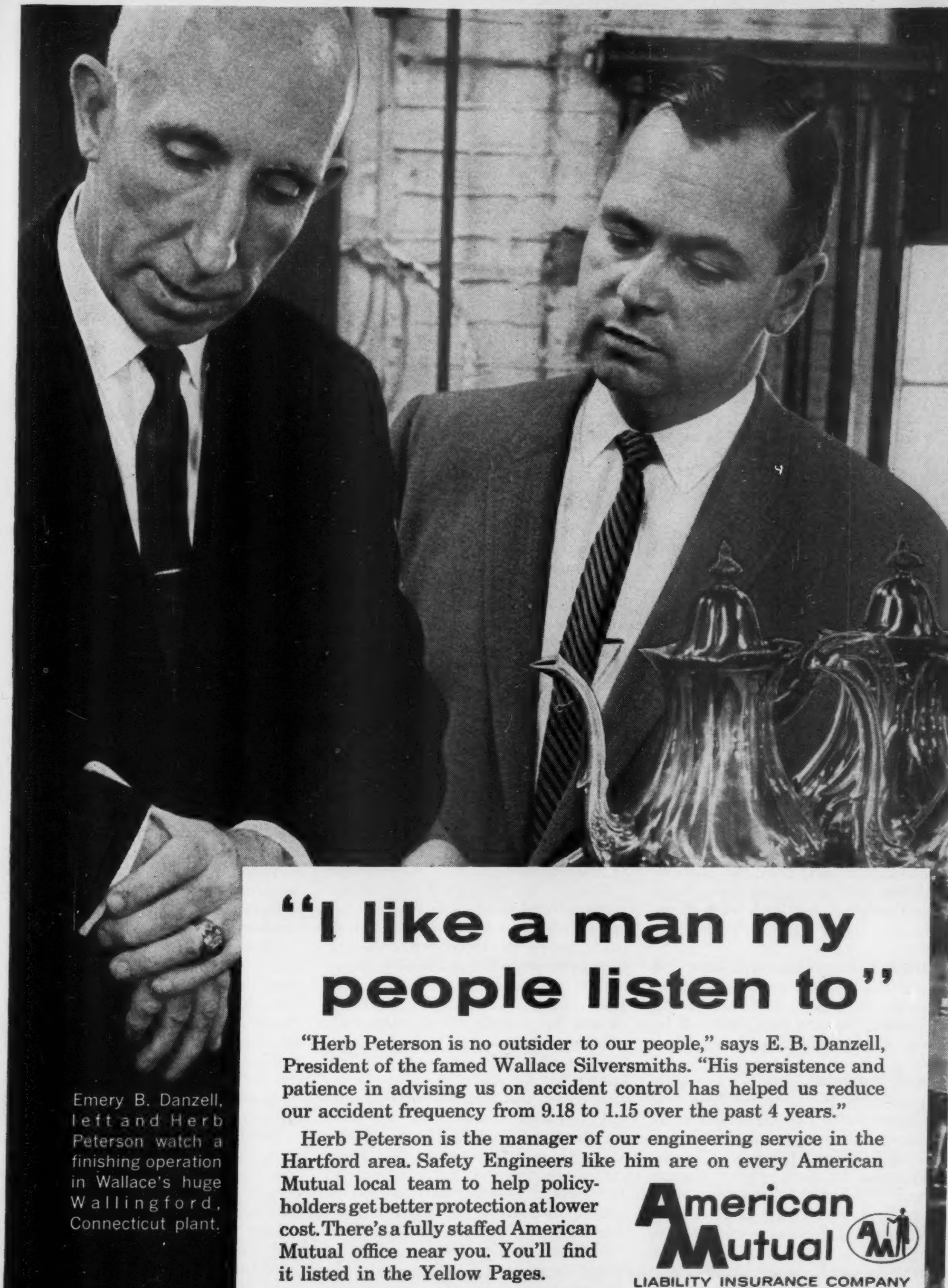
When the Pennsy and Central do apply, the commission is expected to require them to get rid of important stockholdings as a prerequisite of a merger. The Pennsy owns 32% of the N&W and 86% of the Wabash, which eventually will be merged into the N&W-Nickel Plate. The Central and Alleghany Corp., which controls the Central, own approximately 20% of the B&O.

Duplicate facilities. Even though each railroad has changed since previous studies, savings from a merger are still expected to be enormous. The two roads have many hundreds of miles of parallel track. They maintain duplicate facilities at such points as New York, Buffalo, Cleveland, Cincinnati, Indianapolis, Pittsburgh, East St. Louis, and Chicago.

According to a joint announcement put out by the Pennsy and Central, ". . . The need to increase efficiency and reduce costs through elimination of duplicating facilities and services is far greater now than in 1957 when the studies were begun."

One aspect of duplication is the question of two managements. Who will run the consolidated railroad?

A committee of three outside directors from each road will study this question along with others leading to the merger. Perlman and Symes will sit in on this committee on an ex officio basis.



Emery B. Danzell, left and Herb Peterson watch a finishing operation in Wallace's huge Wallingford, Connecticut plant.

Montgomery Ward picks top merchandiser

Big retailer and mail order house names Robert E. Brooker as new chief administrative officer. Brooker, former president of Whirlpool, is known for retailing savvy

Robert E. Brooker faces the job of getting Ward's house back in order.

Montgomery Ward & Co.'s long search for a top-flight merchandising man to direct the company finally appears to have ended.

Ward's stumbled through much of the postwar period while its chief competitor, Sears, Roebuck & Co., came to dominate the mail order and retail store field. Last week it turned to a Sears alumnus to put its house in order.

It named as president and principal administrative officer Robert E. (Tom) Brooker, 56, president of Whirlpool Corp. since 1958. Brooker joined Sears in 1944, and was a vice-president for eight years and a director for seven before moving to Whirlpool, which is a major Sears supplier.

Responsibilities. Chmn. John A. Barr, who continues as principal policymaking officer, announced that the title of chief executive officer, carried by Ward's chairman since the retirement of the late Sewell Avery, has been dropped. At his recommendation, said Barr, the posts of chairman and president have been placed on a par and both are responsible directly to the board of directors.

Brooker, Barr says, will have full responsibility for day-to-day operations and carry final decision-making authority. The new president will be given an entirely free hand, Barr adds.

Well grounded. Brooker is highly respected by both the retailing and appliance industries. Schooled as an engineer, he worked for Southern California Edison Co. as a buyer, then spent 10 years with Firestone Tire & Rubber Co., becoming head of its West Coast Retail Store Div. before joining Sears. He rose to vice-president in charge of factories at Sears—as much a merchandising as manufacturing job—and reportedly was one of several candidates for the presidency in 1958.

The job went to Charles H. Kellstadt, and Brooker became president and a director at Whirlpool, which sells about 60% of its appliance output to Sears (under the Coldspot and Kenmore brand names). Sears holds 16.5% of Whilrpool common stock and has two seats on its board, one of which was occupied until recently by Kellstadt, who resigned because of press of other business.

Brooker's record. Brooker was regarded as an excellent organizer at Whirlpool, where he set up a profit-planning system for each department and headed service, manufacturing, and, recently, sales of appliances to RCA-Whirlpool distributors.

Under Brooker, Whirlpool sales increased from $404.6-million in 1958 to $430.5-million and $446.4-million in 1959 and 1960. Earnings more than doubled from $10.2-million in 1958 to $20.7-million in 1959, and last year were $15.7-million, topping the $15-million that Montgomery Ward earned on sales of $1.249-billion.

Ward's has increased its volume substantially and streamlined its properties under Barr, who took over from Avery in 1955, but earnings have been poor. When Paul M. Hammaker resigned as president last June [BW Jun.24'61,p97], Barr renewed his search for a man with retailing savvy. Two months ago, he contacted Brooker, whom he has known for 16 years.

Brooker was not well known outside Whirlpool, where he operated on the inside while Chmn. Elisha Gray II, who reassumes the presidency, represented his company to the public. Brooker is expected to play a similar role at Ward's, "leaving Barr to enjoy the limelight," as one Ward man puts it. Gray has no plans to replace Brooker, and calls his switch to Ward's "completely understandable" and a "splendid opportunity."

Merger dropped. In announcing Brooker's selection—a well-kept secret in retailing circles—the new management team indicated that Ward's entry into the discount merchandising field may be put off for a while.

Negotiations with Interstate Department Stores, Inc., a fast-growing discount operation, were terminated last week [BW Nov.4'61,p69]. Neither side revealed details, but an insider at Ward's says now that Sol. W. Cantor, Interstate president, was unhappy over Barr's reluctance to bring any Interstate executives into Ward's top management.

Barr insists that Brooker's employment was not a factor in the collapse of Interstate negotiations. But the Ward man points out that Cantor —expected to be Ward's new merchandising genius—was told that he would be expected to answer to Brooker.

When the Interstate merger fell apart, Barr said Ward's was still interested in the discount field, but that "nothing was cooking" in that direction now. Discount merchandising has become a $4-billion business and can't be ignored, says Brooker. But he added that Ward's has "a system we ought to exploit to the fullest before changing our concept."

Brooker says he has no specific program worked out to arrest Ward's sad earnings picture and put the company back on its feet. But he will not imitate Sears.

Barr will not reveal Brooker's salary, but he earned $95,164 at Whirlpool last year, and Hammaker was paid $91,200 in 1960. Brooker is a director of Swift & Co., as is Barr, and of Clark Equipment Co., and will be a nominee for Ward's board at its next meeting.

REPORT ON FINANCIAL POSITION

A good financial structure is so important to profitable long-range operations that our shareholders will be interested in the following information.

Construction of new facilities this year will cost about $86,000,000. To help finance this construction program we obtained $40,000,000 in bank loans in July, and at September 30 average interest on long-term debt was 4.04%.

At September 30, 1961, shareholder equity represented 42% of United Gas Corporation's consolidated capitalization of $725,000,000.

We consider this a healthy financial position. It has resulted from careful, long-range planning by the management of the world's largest handler of natural gas.

UNITED GAS CORPORATION
SERVING THE GULF SOUTH
Headquarters, Shreveport, La.

WORLD'S LARGEST HANDLER OF NATURAL GAS

Used car dealer hitches his wagon to antitrusters' suit against General Motors

A Los Angeles used car dealer has followed up the Justice Dept.'s charges against General Motors and certain Chevrolet dealers for alleged restraint of trade on car sales through discounters [BW Oct.21'61,p32]; he has filed a civil suit of his own.

Robert Chico, Southland used car dealer, who has also acted as house broker in new cars, this week filed **triple-damage claims amounting to $3,045,000** against GM and 10 other defendants—including four dealers not named in the original criminal indictment. Chico alleges that he was driven out of the business when four dealers refused to sell cars through him.

Meanwhile, over the opposition of the Justice Dept., U. S. Judge Harry C. Westover allowed postponement of the arraignment in the government's case from Nov. 6 to Nov. 20.

FCC asks how GE and Westinghouse control broadcasting outlets

The Federal Communications Commission last week expressed concern over management of General Electric and Westinghouse broadcasting affiliates, in the light of the antitrust troubles of the parent companies.

FCC has been giving long study to applications for broadcasting license renewals by GE and Westinghouse [BW Jun.24'61,p44]. **Now the agency has asked officials of the broadcasting companies for detailed information on how top management of the parents controls the broadcasting operations.** The commission said that, since top officials of GE and Westinghouse denied any knowledge of price-fixing, it was "concerned that such officials may also not be familiar with or exercise proper supervision of the broadcast stations."

Officials of the broadcasting stations involved said their operations were completely separate from the parents. At midweek, GE said it was preparing a detailed reply to FCC.

Voters turn down about half of $1.2-billion bond propositions

Voters in three states and many communities apparently approved only about half the $1.2-billion worth of bond propositions facing them this week. It was the smallest total since 1957's $939-million, according to the Bond Buyer, and the lowest rate of approvals in years.

The percentage was held down by the apparent defeat of a proposal to have the state of New York pledge its credit to $500-million worth of bonds for college and university buildings. **Much of the opposition to this measure was attributed to the inclusion of private—particularly religious—institutions.**

Two other proposals carried in New York, however: one to guarantee $100-million worth of Port of New York Authority bonds for buying commuter cars to be leased to railroads, another to back $50-million in bonds to finance construction of industrial plants in areas of chronically high unemployment.

Other major issues that carried were $100-million in New Jersey for park land and for prison and hospital buildings, $115-million in San Francisco for water supply, and $65.5-million in Philadelphia for a number of improvements.

Hughes Tool stirs fight before CAB by plea to aid Northeast Airlines

A major battle is shaping up before the Civil Aeronautics Board over Hughes Tool Co.'s request for permission to advance funds to financially strapped Northeast Airlines. Hughes Tool, wholly owned by Howard Hughes, wants to "assure the financial integrity of Northeast" while it negotiates for control of the airline from Atlas Corp.—a holding company that owns 56% of Northeast stock and in which Hughes has a 10% interest.

Hughes Tool and Northeast told CAB **the airline needs an undetermined sum "urgently and immediately."** They said they expected the funds could be borrowed from banks at relatively short maturities and guaranteed by Hughes Tool, which has already paid a $39,967 fuel bill for Northeast.

National and Eastern Air Lines oppose the petition. **Eastern charges that Hughes is already moving illegally into day-to-day control of Northeast.** In 1958, CAB ordered Hughes to stop acquiring control of any airline other than Trans World without specific permission. Later, Hughes was forced to put his TWA shares into a voting trust.

In a related development, Mohawk, Eastern, and National Airlines have withdrawn their offer to merge with Northeast [BW Sep.23'61,p36].

Southern California's worst fires do $20-million damage to property

The worst fires in Southern California history this week swept the Bel-Air, Brentwood, and Topanga Canyon sections of Los Angeles, causing an estimated $20-million in property damage. Nearly 400 homes, including swanky hillside residences of businessmen and movie stars, were destroyed.

The destruction may result in cancellation of hearings into rate increases imposed by insurance companies last July for homes in the area. Increasingly concerned about fire danger, the companies increased rates as much as 400%, depending on the location in relation to fire fighting forces and the proximity of homes to brush.

Washington outlook BW

November 11, 1961

JFK plagued by skepticism on budget goal

Pres. Kennedy is in a budget cross-fire.

On one side, conservative financial circles both at home and abroad doubt that he can really balance the budget next year as he says he intends to do. On the other side, liberals in his own party don't want him even to try.

At the present, Kennedy is not listening much to his critics in the Democratic Party. But he would like very much to convince the international financial community of his good intentions.

This desire of Kennedy explains the tone and content of the series of major economic messages that will be prepared in the White House over the next six weeks.

Kennedy will deliver the messages early next year, after Congress convenes. They consist of the traditional State of the Union message, the budget for fiscal 1963, and the annual Economic Report of the President.

The common theme in all will be fiscal responsibility and the need to defend the dollar in a world of rapid economic change.

This emphasis makes Treasury Secy. Douglas Dillon the key adviser in drawing up fiscal strategy for Kennedy's second year in office. Dillon is getting strong backing from Budget Director David E. Bell, under orders from Kennedy to hold down unnecessary spending rises.

After a wobble, another attempt

It's an uphill fight for Kennedy, Dillon, and Bell.

Kennedy made a strong start last July by flatly promising to balance the budget in fiscal 1963, which runs from July next year through June, 1963. But he appeared to wobble in a press conference comment last month and now must try to make up lost ground.

The Administration hopes to win the confidence of international financial experts before the balance-of-payments problem becomes acute again (page 29). **If they can do this, the chance of another serious gold drain will be minimized.** But confidence is an elusive quality. And Kennedy is asking for it long in advance of actual performance, with two successive deficits behind him.

Budget cuts bring on cries of pain

Kennedy's spending hold-down is causing anguish in his official family.

Top administrators of the Agriculture Dept., in particular, are in something like a state of shock. Secy. Orville L. Freeman's price support programs, combined with good growing weather, are shooting spending up more than $1-billion over what had been expected.

Kennedy has given particular orders to halt this rise.

Freeman, whose political future is involved, normally would go to Congress next year for simple extensions of the expensive feed grain and wheat programs, avoiding any major changes in an election year. But it's hard to see how he can do this under the Kennedy budget directive.

Health, Education & Welfare Secy. Abraham A. Ribicoff was one of the first to respond to Kennedy's call. He announced a $102-million slash. Rep. John E. Fogarty (D-R.I.) immediately accused Ribicoff of killing cancer research—an indication of what's ahead for the budget cutters.

The State Dept. is letting 500 employees go and others are facing salary cuts. The Agency for International Development is firing 400 employees.

Washington outlook Continued

The biggest personnel cuts are foreseen in the Defense Dept., but here Khrushchev will have the last word. A 79,000-man cut in the armed forces is planned for next year, on the theory that the Berlin crisis will ease up and that there will be no calls for new troops in Southeast Asia or elsewhere.

Officials hope for higher industry spending

There will be disappointment in Washington if business does not increase its spending on new plant and equipment next year by more than the 4% rise that the new McGraw-Hill survey found it planning (page 70). Officials hope capital spending will show its usual tendency to run ahead of early plans in the upswing of a business cycle.

Experts think liberalized depreciation allowances, already announced for the textile industry and proposed for others, will help. They are hoping Congress will also push through the 8% credit plan. If corporation profits show a good gain this quarter and keep on growing early next year, they expect a wholesale revision upwards of spending plans.

Some analysts believe plant and equipment spending a year from now should be running 15% above current levels if the economy is to show a satisfactory rate of growth going into 1963.

Robert Kennedy will try to calm business fears

Atty. Gen. Robert F. Kennedy will tell the Economic Club of New York Monday night that the Administration is not anti-business, that antitrust laws will not be applied in a doctrinaire way, and that they will not be used to harass business.

It will be a major effort on the part of the President's brother to quiet the worries of businessmen. Kennedy will point to only 11 antimerger cases during his regime out of hundreds of mergers that have taken place during the period.

Gainers and losers from the elections

The elections of recent days—which lifted Democratic spirits and disappointed Republicans—are going to affect the standing of key leaders in both parties.

Pres. Kennedy: A gainer, particularly from the New Jersey result where Democrat Richard J. Hughes won the governorship. Kennedy personally campaigned for Hughes with a straight Kennedy-policies-are-good-for-you type of speech.

Former Pres. Eisenhower: As a campaigner, he loses some luster. He campaigned for his old friend, James P. Mitchell, in New Jersey, and Mitchell lost to Hughes. Eisenhower also went into the Texas 20th Congressional district for the GOP candidate, but Democrat Henry B. Gonzales won.

Gov. Nelson A. Rockefeller of New York: Republican Louis J. Lefkowitz got about 35% of the vote for mayor of New York City, a good showing based on past records. Rockefeller campaigned hard for Lefkowitz and claims a moral victory. But the winner, Robert F. Wagner, still won by some 400,000 votes, which will scarcely enhance Rockefeller's standing as a possible Republican Presidential candidate in 1964.

Sen. Barry Goldwater: The defeats of Mitchell, a moderate Republican in New Jersey, and Lefkowitz, a liberal Republican in New York, will give renewed life to the argument that the Republicans should pick a conservative of the Goldwater type if they want to win in 1964.

Eggheads who help run unions

The old-line elected official still snorts, but he has to use the professional people

Among the multitudinous jobs open to modern man—from short order cook to astronaut—that of labor egghead is one of the least known.

Yet today's union couldn't operate without him. A wage-and-fringe formula to break a collective bargaining impasse, a policy speech for the union president to deliver, a reform to be pushed through Congress—these are all the egghead's business, and a measure of his importance.

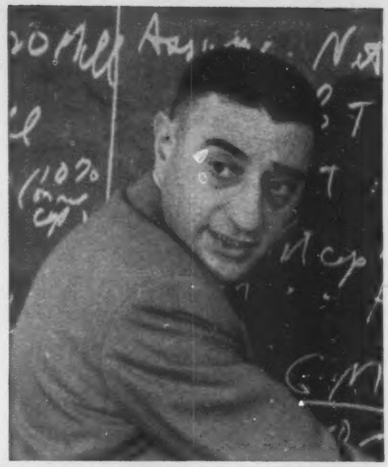
In all, there are perhaps 200 labor eggheads—lawyers, economists, legislative and foreign policy experts, editors, public relations men, and education specialists—who fill top staff or consultants' posts with the AFL-CIO, international unions, or regional labor bodies. Other professionals work for unions, but they are basically technicians.

The top 200 such as the ones pictured (right) do more than that. They influence labor's thinking.

Denials. Say that out loud in a gathering of union officers, and the room will ring with protests. Highly political and largely self-educated, labor's elected officials are feverishly sensitive to any implication that they have turned over policy direction to hired hands with college degrees.

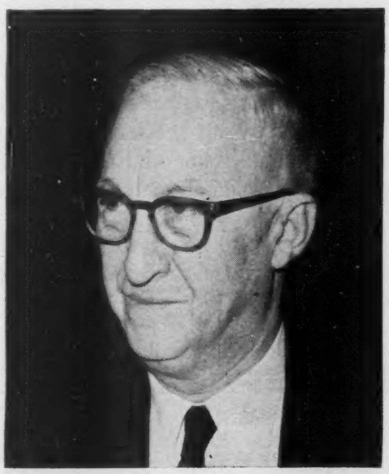
They haven't, of course. The hired hands are influential largely because it is their ideas that the elected officials accept and then put into practice as policy.

Just the same, many labor leaders, particularly in the former AFL unions, still think "egghead" is a dirty word, and "influence" is another. But history is sweeping along even the diehards. First there was merger with the CIO—with its tradition of making common cause with liberal intellectuals, and its practice of using professionals to ad-

Economists who count include Stanley Ruttenberg (left), head of the AFL-CIO Research Dept., and the UAW's Nat Weinberg, who helped to develop concepts of guaranteed annual wage and supplementary unemployment benefits.


Lawyers who count include the USW's David Feller (left) and the MEBA's Lee Pressman—once No. 1 egghead under Phil Murray, now instrumental in bringing foreign flag and maritime subsidy issues to bargaining table.




Foreign policy experts who count include Jay Lovestone (left), anti-Red former Communist who influences Meany's thinking on foreign affairs, and Victor Reuther, his opposite number on the CIO side.

vise the centralized leadership on the organizing, bargaining, and other policies that AFL left to locals.

Complexity. Then there was the increasing complexity of everything. Complicated wage-and-fringe negotiations made the economist essential, workload problems made the industrial engineer essential, cooperation with foreign trade unions and interest in foreign policy made the international affairs expert essential, and so on down the line.

"Before the Landrum-Griffin law, every time I'd open my mouth, he'd say, 'Don't tell me what to do. Just get me out of jail after I do it,'" a Washington attorney recalls of his leading labor client. "Now he checks with me before doing anything."

I. You find them everywhere

Today, professionals are part of all but the smallest or most decentralized unions. The champ by a wide margin is the United Auto Workers, which has 31 professionals exclusive of its 43-man education department.

Others with active professional staffs are the United Steelworkers, where Pres. David McDonald uses economist Marvin Miller as an administrative assistant and listens carefully to what general counsel David Feller has to say; the International Assn. of Machinists, the International Union of Electrical Workers, the United Rubber Workers, the Communications Workers, the Textile Workers Union, the International Ladies' Garment Workers' Union and the Amalgamated Clothing Workers.

The AFL-CIO itself has special departments for civil rights, community services, education, international affairs, legislation, political education, publications, public relations, religious relations, research (basically economic), and social security. An investment counselor is attached directly to Pres. George Meany's staff.

Influential. Take the economist. He deals with the raw materials of the union's activities: wages, hours, productivity, industry conditions, national trends. His evaluation of company and industry prospects affects the way the union approaches negotiations—what it asks for, how long it sticks to its guns, what it's willing to settle for.

Often the economist actually creates the union's bargaining formula. If it becomes a pattern-setter, its impact is felt throughout industry.

Supplementary unemployment benefits is a prime example. SUB was devised originally for the Steelworkers by actuary Murray Latimer and developed in its present form by economist Nat Weinberg, head of the UAW's Special Projects Dept.

Highlighting trends. An AFL-CIO economist also isolates economic trends of importance to labor and sharpens them as issues.

"Before anyone else, we focused attention on the fact that the country came out of each post-Korea recession with a higher unemployment rate than before," a staff economist says. "We talked about the slowdown in the U. S. growth rate before Kennedy. And the CIO held its first conference on the economics and social impact of automation back in 1955—it was initiated by the research department."

In dealing with such issues, the research department develops two types of recommendations: what the government should do about the problem and what the unions should do about it.

Its government-directed recommendations regarding unemployment and automation might involve —for instance—tax legislation or monetary policy. If accepted by the executive council, they become the AFL-CIO position on these matters, to be fought for politically—by, among others, the professionals in the AFL-CIO Legislative Dept.

Its union-directed recommendations might suggest ways of adjusting to technological change through collective bargaining. The grim search for such techniques is top priority in most union research departments today.

Free trade fight. AFL-CIO research director Stanley Ruttenberg has good working relationships with both Meany and Walter Reuther, head of the AFL-CIO economic policy committee, to which his seven-man department reports. The department has built a reputation for accommodating diverse interests. A case in point is its fight to keep the federation on the side of free trade, despite pressure from unions in industries hit by imports. It has done this by developing alternatives to protectionism, such as the voluntary quota system.

In the case of foreign trade, the labor egghead's influence can be traced almost in a straight line to the heart of public policy. Had the research department abandoned its free trade position anytime within the past few years, most labor observers believe, AFL-CIO might have gone protectionist. Without labor's support, the free traders might have lost Congress.

Union economists were so effective here partly because they built

Nelson Cruikshank heads the AFL-CIO's influential Social Security Dept., which affects national policy.

Arthur J. Goldberg, as a ranking labor egghead, helped ease merger, formulate an Ethical Practices Code.

Andrew Biemiller, AFL-CIO's top lobbyist, advises on such questions as "Back this bill or hold out for better?"

on labor's historic support of free trade. This is true in all cases of egghead influence. No professional influences a union or its leaders against the general drift of their beliefs. He is influential in modifying or helping to implement these beliefs.

Foreign policy. Take Jay Lovestone, director of international publications in the AFL-CIO's International Affairs Dept. and probably the single greatest influence on Meany's foreign policy thinking. Lovestone is a former Communist Party official who broke with the party to head a deviant faction, the Lovestoneites, then abandoned Communism completely to become a dedicated anti-Communist.

Lovestone's influence has made the already strongly anti-Communist Meany more sophisticated in pursuing his goal. Now, when Meany considers what position to take on an issue such as the French-Algerian conflict, he does so with an eye to its implications for the worldwide anti-Communist struggle.

Other influential figures in foreign policy are the UAW's Victor Reuther, brother of Walter and spokesman for the opposition in the AFL-CIO's never-ending foreign policy debate; Michael Ross, director of the seven-man International Affairs Dept.; and Bill Kemsley of the International Confederation of Free Trade Unions.

Legislative aides. In domestic politics, the five-man Legislative Dept. (lobbying) and the eight-man Political Education Dept. (fund-raising and get-out-the-vote) are sources of influence—the latter less so, since it's basically an internal affair.

Andrew Biemiller, Legislative Dept. director, and such top lobbyists for international unions as TWUA's John Edelman often are consulted on political appointments. They may also be asked such questions as: "Should labor support this compromise bill or risk holding out for a stronger one?"

Public relations men whose opinions carry weight include Albert J. Zack, director of the eight-man AFL-CIO Public Relations Dept., and two former AFL-CIO staffers who now operate their own agencies, Phil Pearl and Henry Fleischer.

Many labor leaders are awkward in dealing with the press. The man who can guide them commands respect. So does the speech writer.

Personal qualities. An education director derives his influence, if any, from his personal qualities rather than his role—which puts him in closer contact with members than officers. Two with influence are

Chaseman Thomas P. Sullivan displays the wares of one of his small business customers

Precision plastics—and a symbol of greater usefulness from the people at Chase Manhattan

Lending money to small business is one of the things the people at Chase Manhattan like most to do. And for good and practical reasons.

The fact is that when depositors' and stockholders' money goes to work in a small business loan, men and women go to work, too. And if the business succeeds, the whole community benefits by an increase in competition that can bring a wider choice of products and better prices.

In a sense such loans are like seed corn. They go into the ground with much planning and great faith. Cultivated by men of character and ability they yield a harvest that profits all concerned, brings better living to the community, and ultimately contributes to the strength of the whole economy.

That's why there's no greater satisfaction to a banker than lending money to a business that goes places. It explains, too, why the small businessman is so welcome a customer at Chase Manhattan, and why he has a standing invitation to come in for financial guidance and assistance.

The factual report to the right is a case in point.

Larry Rogin, director of the AFL-CIO's three-man Education Dept., and Gus Tyler of the ILGWU.

Some unions use the education director as an expert on membership reactions.

"The Steelworkers' revolt over the dues raise would never have taken McDonald by surprise if the union had used staffers instead of university extension services to teach its stewards' classes," one education director claims. "Staff people would have spotted the groundswell of opposition, and known it was serious."

The AFL-CIO Social Security Dept. operates in the kind of area where eggheads are most influential —one that's important, but doesn't impinge on the meat and potatoes issues of wages and organizing, with their political implications for elected officials. Moreover, it doesn't strike the official as something he knows more about than the expert.

The five-man department consists of director Nelson Cruikshank and specialists in social security, health care, workmen's compensation, and unemployment compensation. They prepare Congressional testimony for AFL-CIO officials and often testify themselves.

They also prepare the draft of any AFL-CIO resolution on these topics, a draft that is generally accepted almost unchanged by the executive council. Since member unions habitually follow the AFL-CIO's lead, the resolution becomes identified as labor's position, and legislators respond accordingly.

Labor's attorneys. Union lawyers also flourish—among them the AFL-CIO's J. Albert Woll and Thomas E. Harris, the IUD's David Feller, Louis Wollman of the International Longshoremen's Assn., Herman Cooper of the National Maritime Union, Lee Pressman of the Marine Engineers Beneficial Assn., Henry Kaiser of the American Federation of Musicians, Louis Sherman of the AFL-CIO Building & Construction Trades Dept., and Martin O'Donohue of the Metal Trades Dept.

Most top labor lawyers are influential in more than one union. In the South, where many unions tread unfamiliar ground and most law firms shy away from representing them, the Birmingham firm of Cooper, Mitch, Black & Crawford is probably more important to the continued existence of the labor movement than many international unions. It may advise one union how to handle a segregation problem, help another to find an honorable basis for a strike settlement.

Although labor lawyers may be influential in everything from a union's dealings with government agencies to its relations with rival unions, their influence is growing fastest in the area of contract negotiations now that unions aren't bargaining primarily for such clearcut things as wages but about job rights and management's prerogatives.

II. How it all developed

In the early days, most unionists believed professionals belonged to the enemy—to the employer's forces. No union dealt with a professional unless it had to. It might pay a lawyer to fight an injunction or free a jailed picket, but that was all.

The ideologically oriented garment unions were exceptions. These worked closely with such Socialist lawyers and political figures as Meyer London and Morris Hillquit, and fostered the institution of the house egghead, usually an editor or education director, who was consulted on many aspects of policy. ILGWU's Tyler is in this tradition.

When, sometime around 1910, the typical union decided to hire its first full-time professional—an editor for its publication—it kept the job in the family. It specified a member.

AFL's first economist. The first economist joined the AFL staff in 1913, but she represented a personal triumph rather than a trend. Once described as "the little lady who changed her pen name from Sam Gompers to Bill Green," Florence C. Thorne pursued a thoroughly individualistic, thoroughly conservative course for four decades.

She got away with it—the explanation runs—because AFL presidents Gompers and Green respected her personally and didn't think theoretical statements issued in their names mattered terribly anyway.

CIO influx. The upheavals of the 1930s changed everything. Professionals and other intellectuals poured into the labor movement. They were welcomed by the leaders of the new mass production unions, themselves men who had rejected the old idea of a union as a narrow crafts organization.

At the same time, new government codes setting minimum labor standards and new laws protecting labor's right to organize activated squads of economists and lawyers. Many began their careers in government and then shifted to unions, or vice versa, starting a two-way traffic that continues today.

World War II, with its government involvement in labor relations, strengthened the professional's role.

In many ways, this was the high-

water mark of egghead participation in American labor, and Philip Murray, CIO president from 1940 to 1952, remains the patron saint of union professionals.

Murray relied heavily on CIO's general counsel, Lee Pressman, then a leftwing attorney who probably came closer to exercising power in his own right than any union professional before or since. But even Pressman discovered the limitations of the pro's role. Murray fired him for his support of Henry Wallace in the Presidential campaign of 1948.

Goldberg steps in. Pressman's successor was Arthur Goldberg, now Labor Secretary.

When—in a virtuoso display of egghead influence on labor thinking—Goldberg helped to change the merger of AFL and CIO from a visionary notion to a possible, desirable, and, finally, inevitable development, he also changed the outlook for his fellow union professionals.

His first beneficiary was J. Albert Woll, who, as AFL general counsel, had remained outside the room where the AFL executive council met. At the first AFL-CIO executive council meeting after merger, Woll found himself following Goldberg into the council chamber.

Other AFL veterans had similar experiences. Some CIO alumni, however, took merger as a comedown. For an old AFL man, Meany showed unusual appreciation of professionals' work—but it just didn't come naturally to him to lean on eggheads.

Roles changed. Moreover, the general trend of events tended to narrow the role of the eggheads. Labor was no longer expanding. It no longer sought imaginative new approaches, so paid less homage to the men who had traditionally supplied them. And, as labor became less the liberal intellectual's "cause," many union leaders once again regarded the professional as an outsider.

Increasingly, however, they had to depend on him.

III. What they are paid

Eggheads' pay scales vary, with the lawyer usually earning the most and the education director the least. On the whole, top professionals get salaries far below those in private industry, though beginning wages may be comparable to those in private industry.

Most labor eggheads have the standard professional training in their field, although foreign policy and political experts are often developed by the union itself rather

than trained outside. Many have union experience in addition to professional training. The Depression college graduate who went to work in a factory, helped to organize its union and rose in its ranks to become research director, education director, or—more recently and significantly—executive assistant to the president represents a distinct subspecies of labor egghead. He's a man to watch.

Years ago, many professionals came into the labor movement because they were Socialists.

Today the labor egghead is likely to be idealistic rather than ideological. He works for a union, he explains, because the work is less routine than in either a corporate or government job, the atmosphere is friendlier, and—sooner or later he says it—"with all its faults, this is the side of the angels."

Angelic? Paradoxically, this attitude can be a thorn in the flesh of the elected official. In the clutch, the official says, the egghead always expects him to be angelic rather than realistic.

Nevertheless, most observers—and some union officials—credit the egghead with performing a vital service in widening labor's vistas. In doing so, he has not only kept it up-to-date and given it a more workable approach to its problems, but he has prevented its isolation from the rest of American society.

"Eggheads emphasize those social goals which labor has in common with the League of Women Voters and the National Council of Churches," a laborite notes. "They tie in labor's interests with those of the liberal wing."

The professional also provides links with government agencies, with the academic world, and with his opposite numbers on the management side of the fence—the last important in collective bargaining.

"Without the professional, labor would be infinitely less effective as a national force and somewhat less effective as a collective bargaining force," one veteran observer sums up. "Certainly it would be less imaginative as either."

This is far from a unanimous verdict even now.

When a Steelworkers committee sat down with a Sheet Metal Workers committee recently to discuss their fight over a Carrier Corp. plant, the former was accompanied by attorneys, the latter was not.

"We didn't know this was going to be a lawyers' meeting," a Sheet Metal official said with a snort. "We thought it was a trade union matter." **End**

John D. Leary (left), Chrysler vice-president, and UAW Pres. Walter Reuther (right) shook hands on a new contract—and Chrysler avoided a strike.

'Special treatment' for Chrysler

UAW accepts contract that gives financially troubled auto maker a few concessions not included in GM and Ford pacts. This may set pattern for Studebaker-Packard deal

Shortly before noon last Friday, Act IV of this year's auto negotiations drama ended on a surprising note of practicality; the last of the major auto contracts was signed. Unlike every other negotiations year since World War II, the United Auto Workers and Chrysler Corp. signed a contract without strike trouble.

This seemed unlikely four months ago when UAW Pres. Walter P. Reuther and John D. Leary, Chrysler vice-president, personnel, held the first of 125 bargaining sessions. Then UAW people were threatening to make Chrysler "pay up or get out," despite the company's ailing finances and management problems.

Concessions. But it became apparent as the year wore on with Chrysler making little progress toward digging out of the red—it lost $20.5-million in the first three quarters this year—that the problem demanded some "special treatment."

This came in the form of union concessions on pay raises. The annual improvement factor (2.5% or 6¢ an hour as an annual raise, whichever is greater) is retained in the Chrysler contract, as in those of the Ford Motor Co. and General Motors Corp. But a few pennies will be diverted into Chrysler's dangerously low supplementary unemployment benefits fund to bolster payments to laid-off workers. Depending on technicalities of the SUB funding position, Chrysler's 53,000 production workers may wind up with at least 5¢ an hour less in pay raises over the three years than Ford and GM workers.

Studebaker talks. The same may be true at Studebaker-Packard Corp., where negotiations just begun on the union's economic demands aim at a Nov. 30 contract expiration date. The union expects a below-pattern settlement at S-P in the last auto industry negotiation this year. With only 6,100 workers now employed, SP's SUB fund has plummeted to a 1.7% funding position, compared with Chrysler's 29%. Ford and GM have maintained SUB funds close to the 100% mark.

There will be trouble, too, at SP in meeting the Big Three pattern of pension raises to $2.80 per month per year of service. S-P has about 7,500 on active rolls, but nearly 10,000 more are retired.

Whether he meant to or not, Reuther managed a skillful juggling act with the Big Three's car production. Both Ford and GM lost production of 90,000 to 100,000 cars and trucks during their strikes.

It was plain to UAW that a long strike at Chrysler could injure that company's sales position beyond repair.

Few differences. In most respects, the Chrysler contract follows those signed at Ford and GM. As at Ford and GM, 2¢ of the first year's AIF raise will be diverted to hospital insurance, with the company then assuming full medical care costs. But at Chrysler, a few more pennies may be diverted to the SUB fund.

Reuther estimated that Chrysler production workers would get 18¢ an hour in pay raises over the next three years. This includes the amount that formerly was deducted from paychecks for the worker's half share of medical insurance. GM workers can look for pay raises of at least 23¢, according to UAW.

Trying to hold down the local strike trouble that disrupted GM production in September, Reuther said the UAW's executive board would not authorize any local strikes. Of 88 Chrysler locals, only three had not settled their grievances by the time the national contract was signed.

C-of-l clause. The Chrysler pact is similar to the GM and Ford contracts in other economic areas, including retention of cost-of-living clauses, moving allowances, improved pensions, higher SUB, and short week benefits. Troublesome problems of production standards were worked out at all but a Trenton (Mich.) engine plant, and a new feature was added to the Chrysler contract to meet representation problems. A study committee will be set up six months before the new contract expires three years from now to work out proportional representation of workers by plant stewards. Unlike Ford and GM, there is no provision in Chrysler's contract for adjusting the number of stewards to fluctuations in the work force.

Chrysler gave ground on its bid to cut minimum wages for salaried employees in defense work and agreed to raise SUB payments to laid off union salaried workers to a maximum of $50 a week. The maximum for production workers is $40 a week. **End**

Automation will be the big issue in next round of steel negotiations

Steel negotiations in 1962 are likely to develop into another "crucial test" between the industry and United Steelworkers, union officials are warning locals at district meetings around the country. **The big issue will be automation.**

Howard R. Hague, a USW vice-president and top aide of David J. McDonald, told one gathering in Chicago recently that 300,000 of USW's million members are out of work and 150,000 others are working less than 40 hours a week. Many now idle will never go back into mills because new electronic equipment is cutting manpower needs, he said.

What happens to workers "thrown on the scrap heap" by new developments will be the bargaining issue of 1962, Hague predicted. "We intend to settle this in our next contract," he told the conference.

The USW official warned that the industry is already serving notices that it intends to hold a line on wages and insist (as in 1959) on changes in work rules and practices. He said: "They'll face a fight."

Contracts in the basic steel industry, covering nearly 500,000 workers, expire June 30, 1962.

72-day strike at Trane Co. ends as workers win raise, lose c-of-l

A 72-day strike at the Trane Co., in La Crosse, Wis., ended last week in a contract that gives employees of the air-conditioning equipment manufacturer raises **averaging about 16¢ an hour over three years and company-paid insurance—but eliminates a cost-of-living clause.**

The strike involved 1,800 manufacturing workers represented by the International Assn. of Machinists and a smaller group of office workers. Tool-and-die makers observed picket lines. However, **Trane maintained limited production with supervisory personnel.**

The strikers approved the settlement 959 to 584, hours before a deadline for strikers to return to jobs or face replacement.

In addition to raises of from 9¢ to 25¢ an hour over three years, the terms include pension increases, company-paid insurance that saves employees a reported $2.87 a month, and vacation and other fringe gains.

Two shoeworker unions open talks to push a speedy merger

The Boot & Shoe Workers' Union and United Shoe Workers will open serious merger negotiations in Washington next week after preliminary talks in Boston. **Their objective is quick unity—and stepped-up organizing.**

The Boot & Shoe Workers now claims 40,000 members and the United Shoe Workers 50,000. Both have reported gains of about 1,000 members during the past year, particularly in New England where the industry has been picking up.

Pennsylvania, now second to Massachusetts in shoe production, is much less organized; the state is expected to be the major target of a combined union drive.

UAW blames business and automation for its drop in membership

United Auto Workers membership dropped by 127,953 in the first half of this year, to 1,008,187, as compared with 1,136,140 for the 1960 calendar year. **The union blames lagging business and increased automation.**

UAW Secy.-Treas. Emil Mazey also reported last week that the union's net worth had risen to $57,752,878—a sharp gain from Dec. 31, 1960. Before the recent auto walkouts, UAW's strike fund had climbed to $38,629,840.

Construction in Cleveland blocked as union demands rainy-day pay for stewards

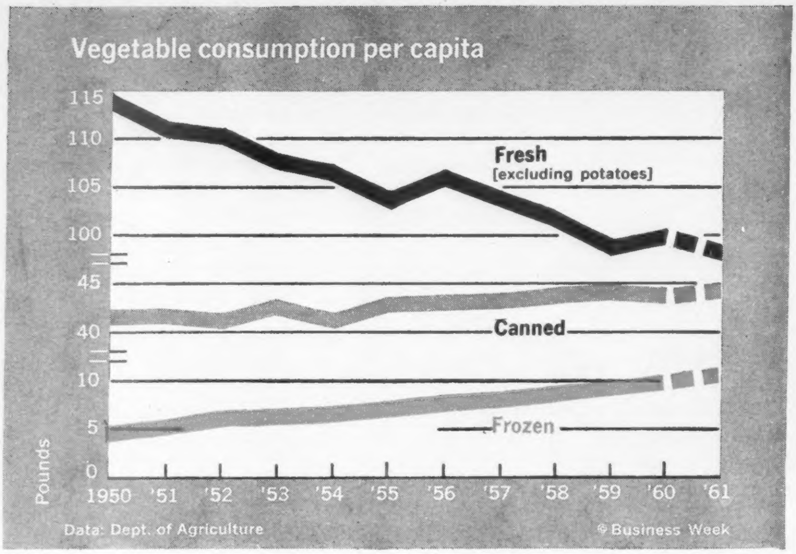
Most major construction jobs in a 10-county area around Cleveland were at a virtual standstill early this week because of a four-week strike by structural ironworkers. Some 600 were on strike; more than 1,200 other building craftsmen remained idle.

The dispute is over a union demand that union stewards receive pay for eight hours even when other union members are sent home because of inclement weather—to protect the "continuing interests" of the union on the job. Employers argue that if the union wants stewards to stay on the site even when there is no work, it must pay them itself.

NLRB raps employer's threat to close down if union wins representation election

The National Labor Relations Board has added another item to its list of reversals of Eisenhower board policies. It recently ruled that **an employer's threat to go out of business if he was forced to deal with a union constituted illegal interference with his workers' freedom of choice in a union representation election.**

The NLRB threw out an election involving Somismo, Inc., television cabinet manufacturer, and a Teamsters local. The union lost the election by two votes last March. Under past NLRB policy, a "mere prediction of the dire consequences" that would result from union demands if the union won was insufficient grounds for setting aside an election; there had to be action by the employer, too.



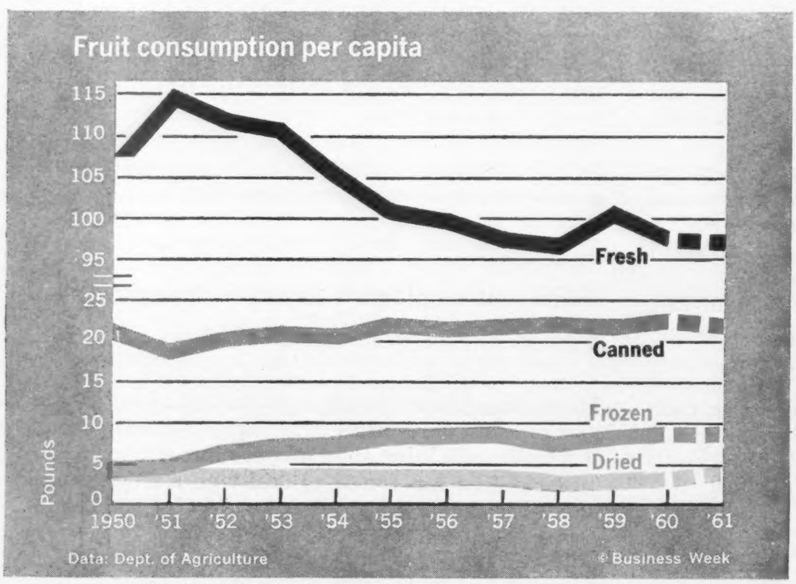
CHARTS OF THE WEEK

Ease of serving wins the day

Convenience foods play an increasingly important role in the average American's diet.

Per capita consumption of canned and frozen vegetables mounted steadily in the past decade, nibbling away at the intake of fresh vegetables. From an average of almost 115 lb. per person annually in 1950, fresh vegetable consumption dropped to only 99 lb. this year.

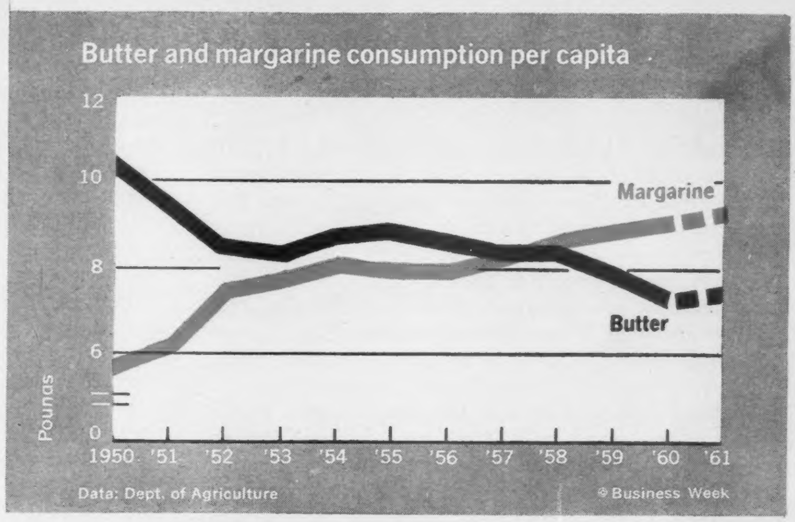
Most popular among the fresh variety are those vegetables for which no satisfactory processed substitute may be found: salad greens, tomatoes, celery, onions, and corn.



Frozen fruit is biggest gainer

Strawberries in November and peaches in February are common sights on the American dining table nowadays, thanks to the rapidly growing popularity of frozen and canned fruit. Frozen fruit consump-

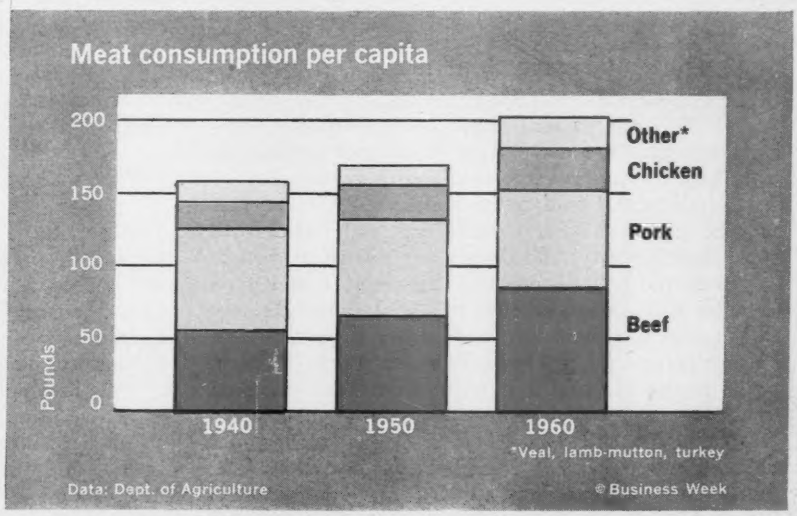
tion, in particular, has taken giant strides in the past decade. From only 4.3 lb. in 1950, average annual intake of frozen fruit grew to more than 9 lb. this year. Almost two-thirds is in citrus juices.



Margarine widens its lead

Budget-minded housewives and strong national advertising helped margarine spread its lead over butter for the fifth year in a row.

During 1961, the average American is expected to eat 9.6 lb. of oleo, while his butter intake will be only 7.6 lb. Butter consumption has melted steadily before the onslaught of margarine, marking a pronounced shift in U. S. eating habits. Back in 1935, butter consumption hit 17.6 lb. per capita, against only 3 lb. for margarine.



A nation of beef-eaters

Americans, with their penchant for steaks and hamburgers, are probably the world's champion beef-eaters.

Beef consumption per capita has grown from less than 55 lb. a year in 1940 to more than 85 lb. last year.

Poultry, too, has risen rapidly in the U. S. diet. Since 1940, the average consumer has more than doubled his intake of chicken—from 14 lb. to more than 30 lb. And turkey, which last year was gobbled up at the rate of 7.7 lb. per capita, accounted for only 2.9 lb. 20 years earlier.

Westinghouse stumbles on new method of generating power directly from fuel

Westinghouse Electric Corp. just picked up a $75,000 military contract to study an "accidental" product of its research. By chance, Westinghouse discovered that porcelain enamel, wedged between two plates of an iron alloy, produces electric power when heated. The phenomenon—one more in the list of exotic techniques for generating power directly from fuel [BW Nov.4'61, p83]—was noted by consulting engineer B. O. Austin on an unrelated project at Westinghouse's Lima (Ohio) plant.

Westinghouse won't reveal the power output of the Austin cell but says **a rudimentary model slipped into an ordinary household electric toaster produces enough current to drive a small electric motor.** This first unit operates at 1200F, and power production continues as long as the unit retains heat, even when the heat source is removed.

Westinghouse sees a market for the Austin cell in missile and space work—for instance, in the exhaust nozzles of rockets to convert waste heat into electricity.

Research will be carried out at Westinghouse Aerospace Electrical Dept. in Lima, with an assist from Battelle Memorial Institute. The contract was awarded by the Aeronautics Systems Div. of Wright-Patterson Air Force Base in Ohio.

Boiler that consumes coal-water slurry creates new interest in pipelines

Since 1959, Texas Eastern Transmission Corp. and Consolidation Coal Co. have tried to interest utilities in coal pipelines—and have gotten almost nowhere. Part of the trouble is that coal, to be moved by pipeline, first must be crunched up and mixed with water to form a thick, muddy slurry; and drying out this slurry before it goes in the boiler is costly. This week, **a new type of boiler was announced that will feed almost directly on the slurry, without any preliminary drying.**

Four companies got into the act: Texas Eastern, which hopes to build a pipeline from West Virginia and Western Pennsylvania to the Eastern Seaboard [BW Sep.19'61,p42]; Consolidation Coal, which would supply the coal for the line; Babcock & Wilcox Co., the boiler's designer and builder; and Jersey Central Power & Light Co., the utility that's testing the new boiler. The coal moves over the pipeline as a 60-40 mix —60% coal and 40% water. At the generating plant, a simple settling process lowers the water content to 30%. The slurry is then sprayed as a hollow cone into the boiler under low pressure while hot air, under extremely high pressure, flows in, around, and behind the spray nozzle. This vaporizes the water, and the particles ignite and burn within 1/100 of a second, at temperatures of 3,000F.

This is a far cry from the way coal is handled on the country's only actual coal pipeline—a 108-mi. link in Ohio operated by Consolidation Coal for Cleveland Electric Illuminating Co. [BW Feb.16'57,p191]. In this case, the slurry, running 50% coal and 50% water, comes out of the line and is dumped first into a settling pond where the water and coal partly separate. Slightly denser now, the slurry goes to a dehydrating plant, where all but 8% of the water is evaporated. After this it goes into the boilers. CEI, which burns about 1¼-million tons of pipeline coal a year, claims the cost savings on the line, compared with rail and truck rates, figured about $1 a ton at time of construction.

These savings haven't sold other utilities on pipelines, though, and the new Babcock & Wilcox boiler may not, either. Utilities are moving slowly, and cautiously. According to trade sources, Texas Eastern and Consolidation coal originally approached four utilities with their plan for an East Coast pipeline: New York's Consolidated Edison, Philadelphia Electric, Pennsylvania Power & Light, and New Jersey's Public Service Electric & Gas Co. None of the four admits to being even close to a contract. "In our case," says R. F. Brower, Con Ed's vice-president of engineering, "we've had conversations with Texas Eastern, and they quoted figures; but there just wasn't a substantial difference between what they planned to charge and what we normally pay to freight our coal in."

Even if pipelines proved far cheaper, there are drawbacks. Boiler efficiencies are reduced maybe 3% or 4% by a fuel that runs 30% water. To protect its pipeline investment, the coal company also needs long-term contracts, and some utilities don't want to be tied down to one primary source for 20 or 30 years.

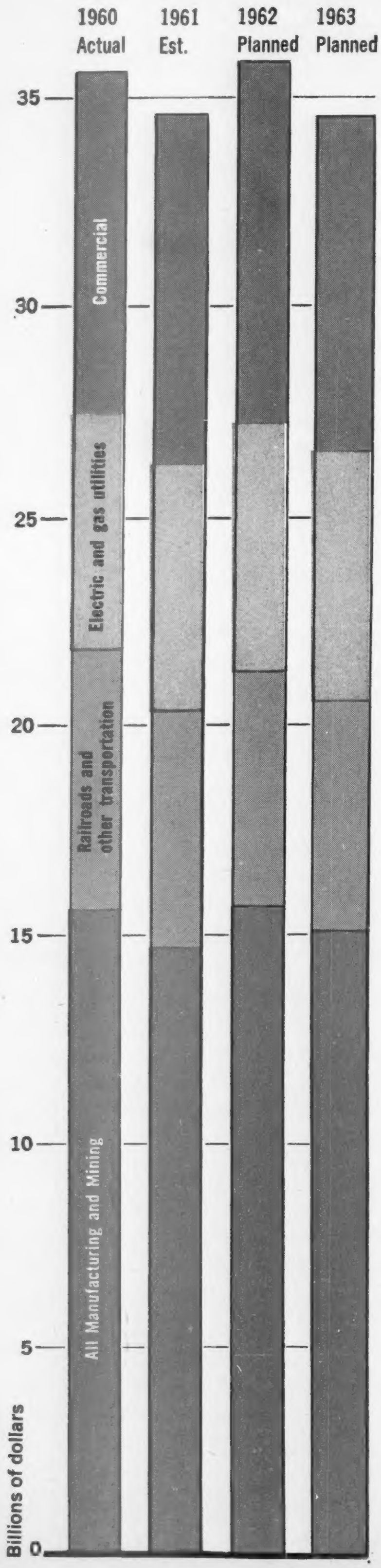
Continental Can's new plastic bottle line triples current production speeds

Next month, a new, automated plastic bottle line—tripling the industry's current manufacturing speeds—will go into Continental Can Co.'s Plastic Bottle & Tube Div. plant in Cleveland. The line, designed at Continental's Technical Center in Chicago and costing $500,000 to develop, turns out 125 bottles a minute.

The blow-molder produces bottles in all shapes, ranging from 12 oz. to 32 oz. in size, and has an ultimate speed capability of 250 bottles a minute. It will be backed up by a special machine that trims bottle necks, a finishing machine that reams the bottle and puts a pouring lip on the neck edge, and a flame-curing machine that treats the bottle's surface so it can be decorated. **Early next year, Continental hopes to have a label imprinter that will four-color print and flame-cure both sides of irregularly shaped containers, at 125 bottles a minute.** This would be the "second and concluding phase" in Continental's plastic bottle production development.

Though the line can handle any polyolefin resin, its main job in Cleveland will be polyethylene bottle production—in quart sizes.

What industry plans to spend on plant and equipment



Billions of dollars

Industry	1960 Actual*	1961 Estimated	1962 Planned	1961-1962 % Change	1963 Planned
Iron & steel	$1.60	$1.16	$1.33	+15%	$1.21
Nonferrous metals	.31	.26	.28	+ 7	.35
Machinery	1.10	1.10	1.17	+ 6	1.17
Electrical machinery	.68	.68	.62	− 9	.63
Autos, trucks & parts	.89	.68	.70	+ 3	.74
Transportation equipment [aircraft, ships, R.R. equip.]	.42	.39	.42	+ 7	.36
Fabricated metals	.95	.90	1.06	+18	.99
Chemicals	1.60	1.65	1.62	− 2	1.57
Paper & pulp	.75	.72	.76	+ 6	.77
Rubber	.23	.22	.24	+11	.26
Stone, clay & glass	.62	.49	.53	+ 8	.53
Petroleum & coal products	2.64	2.78	3.06	+10	2.94
Food & beverages	.92	.98	1.04	+ 6	.93
Textiles	.53	.51	.56	+10	.53
Misc. manufacturing	1.24	1.17	1.20	+ 3	1.21
All manufacturing	14.48	13.69	14.59	+ 7	14.19
Mining	.99	.99	.99	0	.94
Railroads	1.03	.63	.64	+ 1	.70
Other transportation	5.07	5.02	5.03	0	4.84
Electric & gas utilities	5.68	5.75	5.87	+ 2	5.97
Commercial[1]	8.44	8.38	8.72	+ 4	7.85
All business	35.69	34.46	35.84	+ 4	34.49

*U. S. Dept. of Commerce, SEC, McGraw-Hill Dept. of Economics.

[1] Figure based on large chain, mail order, and department stores, insurance companies, banks, and other commercial businesses

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ECONOMICS

Outlay will top 1961's

Tentative budgets for 1962 show all business 4% ahead of this year, with manufacturing up 7%. Preliminary investment plans for 1963 also look favorable

Business now plans to invest $35.8-billion next year in new plant and equipment—4% more than it spent in 1961 (chart and table).

Manufacturing companies expect to increase their capital outlays in 1962 to $14.6-billion—a 7% gain over this year.

Preliminary plans for 1963 are already close to those for 1962—and slightly higher than 1961 outlays.

These are the key findings of the fall survey of business plans for new plant and equipment conducted during October by the McGraw-Hill Dept. of Economics, both by questionnaires and direct interviewing by Business Week correspondents and McGraw-Hill economists.

Preliminary figures. The present tentative plans of companies will be rechecked and updated in the annual McGraw-Hill survey next spring. The fall survey catches business' thinking early in the budget season.

How operating rates are rising

Industry	Actual operating rate December 1960	Actual operating rate September 1961	Preferred rate*
Iron & steel	50%	74%	98%
Nonferrous metals	72	79	96
Machinery	70	74	92
Electrical machinery	74	78	93
Autos, trucks & parts	80	79	94
Transportation equipment [aircraft, ships, R.R. equip.]	71	71	95
Fabricated metals & instruments	76	79	91
Chemicals	75	79	93
Paper & pulp	88	90	100
Rubber	76	87	96
Stone, clay & glass	70	77	90
Petroleum refining	81	87	97
Food & beverages	81	82	93
Textiles	82	87	97
Miscellaneous manufacturing	83	88	94
All manufacturing	77	81	94

*Data: Thirteenth Annual McGraw-Hill Survey, April, 1960

This year, some companies report that their plans are more tentative than usual because of uncertainties in the business outlook. McGraw-Hill economists emphasize that this survey is not a forecast, but a report of what companies are now planning to spend.

Weathervane. The McGraw-Hill fall checkups generally have been correct in indicating the trend of capital spending—although they have tended to understate the magnitude of change, when conducted early in the upswing or downswing of a business cycle. Capital spending is what National Bureau of Economic Research economists describe as a "lagging series" [BW Oct.14'61, p80] and gains strength as the economy moves up to high levels of capacity utilization.

For instance, in the fall of 1954, when the economy was recovering from an earlier recession, business reported that it would spend 5% less on new plant and equipment in 1955 than in 1954. By the spring of 1955, business had revised its plans and expected to spend 5% more than in 1954. Actual expenditures in 1955 exceeded 1954 by 7%. Similarly, in the fall of 1958, preliminary plans for 1959 indicated an increase of only 0.5% over 1958—but actual expenditures turned out to be 7% higher.

More than 4%. In this recovery, if the pattern holds true, capital spending should increase more than the 4% reported by the present McGraw-Hill fall survey. If it doesn't do better, the outlook would be relatively bearish. This would put 1962 outlays a little below the fourth-quarter 1961 annual rate of capital spending, reported by business to the Commerce Dept. and Securities & Exchange Commission as $35.9-billion.

However, an absolutely flat trend from the fourth quarter of 1961 through the whole of 1962 is highly improbable, judging from the past undulations of the capital spending curve.

It is far more likely, McGraw-Hill economists think, that the present preliminary plans understate the eventual 1962 total—and that, repeating past cyclical patterns, capital spending will advance quarter by quarter, through 1962. They base this position on detailed results of the fall survey.

In manufacturing, all major industries except electrical machinery and chemicals plan to increase investment next year. Durable goods producers will spend slightly more than softgoods producers. It's in the durables area that production has increased most since the spring.

Steel splurge. The steel industry expects to boost its investment 15% next year—despite the overhang of considerable excess capacity for some time. The reason is steel producers' continuing concern with replacing obsolete facilities and installing cost-cutting equipment that will enable them to outface stiff foreign competition of steelmakers, as well as domestic competition from metals, plastics, and other materials.

Nor do steel's competitors intend to stand still. The nonferrous metals industry, for example, which reduced investment this year, is scheduling a 7% increase for next year.

Modern facilities. The drive for modernization shows up in other lines. The highest percentage increase projected by any major industry is in fabricated metals and instruments. Instrument producers expect to benefit from continued automation of production and are gearing their investment toward this growth.

Machinery manufacturers will spend 6% more on new facilities next year, with office machinery leading the group. The electrical machinery industry plans to reduce investment 9% next year; producers in this field, however, spent heavily on new capacity in 1960 and 1961. Even with their scheduled reduction in 1962, electrical manufacturers still will be spending more than in any year before 1960.

Autos. The auto industry has adequate capacity to handle any production requirements resembling the 6½-million auto sales predicted for 1962; but it's still planning to spend 3% more next year on better equipment. Transportation equipment manufacturers—largely aircraft and missile makers—expect a 7% increase, spurred by additional defense orders.

Nondurables. Among nondurable producers, the petroleum industry will step up investment 10% next

year to bring total outlay to over $3-billion—a level achieved only in 1956-57. The biggest increase will be in refining and petrochemicals, but production and marketing facilities will also be expanded.

The chemical industry, which has spent well over $1-billion every year since 1951, plans a 2% decrease next year—to $1.62-billion—because in most chemical lines the operating rate is low and spare capacity exists. Over the past few years, chemical companies have invested heavily in petrochemicals—a field into which oil companies are now moving.

Food and beverage companies expect to hit the $1-billion mark for the first time next year. This record outlay will put the food industry in the same billion-dollar league with oil, chemicals, steel, and machinery.

Break for textiles. The textile industry plans to spend 10% more next year. This preliminary figure could turn out to be an underestimate, thanks to the revision of the Treasury's Bulletin F to allow a faster write-off of textile machinery.

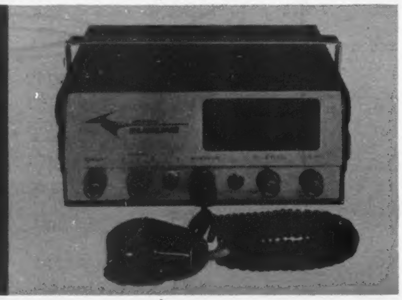
Both the textile and food industries are among those with the largest amounts of obsolete equipment. According to a McGraw-Hill survey conducted in August, 1958, about 75% of the equipment in both textiles and food was installed before 1950.

Plans of all manufacturers for 1963, at $14.2-billion, are already higher than the 1961 level and are off only 4% from 1962. Producers of nonferrous metals, electrical machinery, autos, paper, rubber, and those products included in the miscellaneous manufacturing class all expect to spend more in 1963 than in 1962.

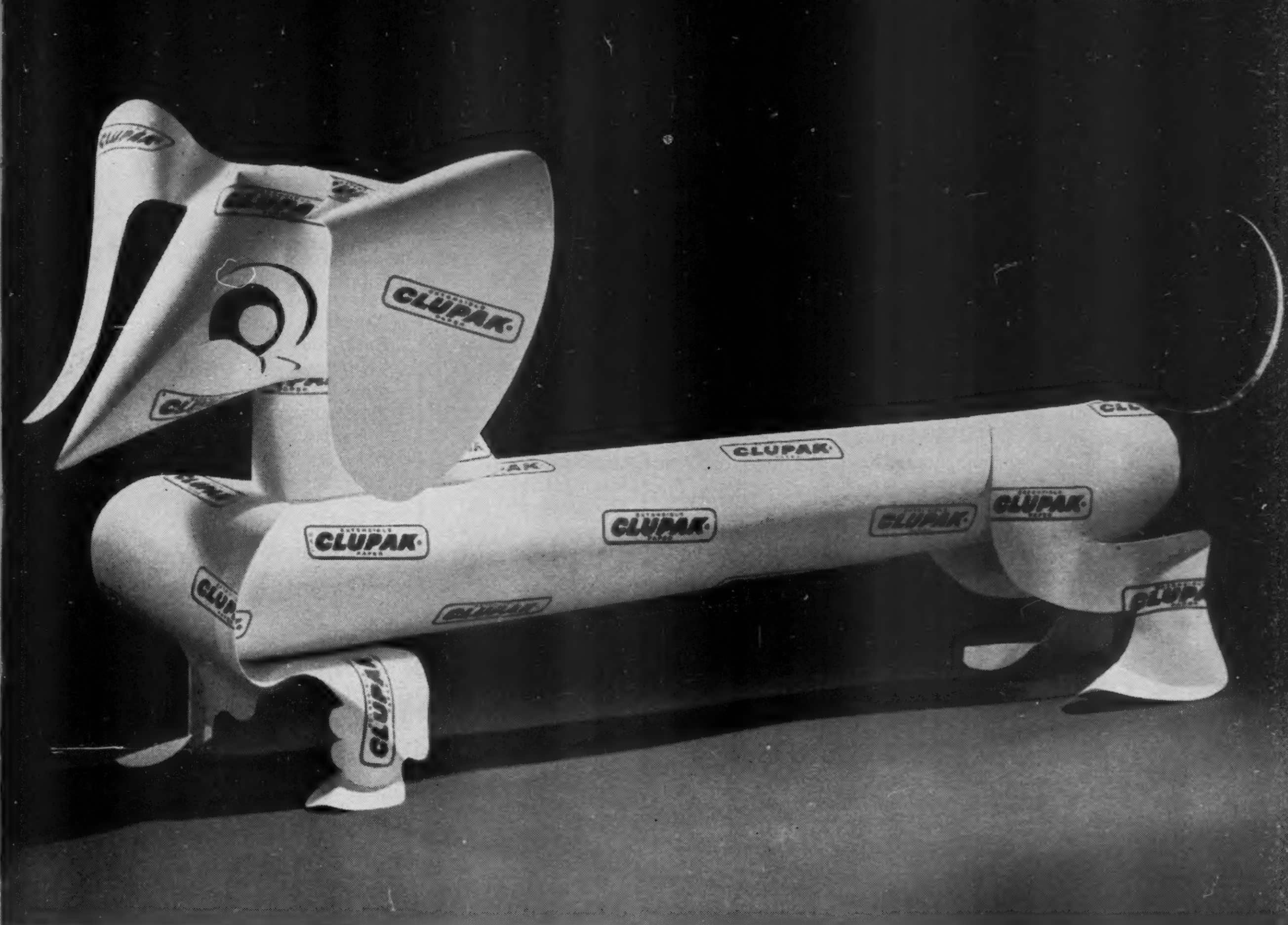
Transportation. Among nonmanufacturing industries, the railroads will invest a little more in 1962—reflecting better levels of traffic and earnings since the recession. In other transportation lines, trucking and bus companies expect to spend more next year, while the airlines, having made substantial purchases of jetliners in the past few years, will cut their outlays substantially. As a group, the whole transportation and communications group will maintain about the same level of capital outlays for 1962 over 1961.

Mining industries, as a group, also expect to spend the same amount next year as this. While iron ore and coal companies will boost capital outlays, nonferrous and nonmetallic mining companies expect their investments to be off next year.

Utilities. Electric and gas utilities together will spend 2% more in 1962. Commercial business—which



MEMO TO MANAGEMENT:



includes banks, insurance companies, large chain, mail order and department stores—say they will increase spending 4% next year. This would bring investment in the commercial area to a record $8.7-billion. The rise reflects continued expansion in new shopping centers, office buildings, warehouses, and other service establishments, as well as purchases of electronic computers and business autos and trucks.

Business upturn. The moderate year-to-year rise in capital spending reflects the improvement in industrial operating rates since the recession lows of last winter (table, page 71). Every industry except autos, which was still undergoing model changeovers and suffering from strikes, was operating at a higher level of capacity in September, 1961, than last December.

Manufacturers as a whole were operating at 81% of their capacity in September—compared with 77% in December 1960. Since September, the continued industrial expansion —particularly stemming from the stepup in auto output—has pushed operating rates to still higher percentages of capacity.

This upturn in capacity utilization partly explains the planned increases in investment. For some companies, higher operating rates require the use of high-cost facilities, increasing pressures for modernization and replacement expenditures.

Except for the chemical industry, all other nondurable goods industries were operating in September at a higher level than the manufacturing average. Operating rates ranged from a high of 90% for paper and pulp manufacturers to the low of 82% in food and beverage industries.

Operating rates. Among durable goods producers, the transportation equipment industry registered the lowest rate—71%—followed by steel and nonelectrical machinery at 74%. Most other durable goods producers were operating a shade below 80%.

These relatively low rates of operation obviously were still dragging capital spending plans at the time this fall survey was taken. All manufacturing companies have in the past told McGraw-Hill that they preferred to operate at 94% of capacity rate—with the preferred rates for different industries ranging up from 90% to the 100% mark.

But manufacturers anticipate that operating rates will go higher in 1962. On the average, they forecast that sales will be up 7%, as measured by physical volume (table above). This expectation is roughly in line with the "standard forecast" of business economists for 1962 [BW Nov.4'61,p28]. A 7% boost in sales would move operating rates into the upper 80s—a warmer level of capacity utilization likely to lead to higher rates of capital spending. Higher rates of operation should also sweeten profit margins and thus lend extra support to capital spending increase by generating bigger internal cash flows.

Sales Forecasts

Industry	Percent Change Expected 1961-1962
Iron and Steel	7%
Nonferrous Metals	9
Machinery	7
Electrical Machinery	5
Autos, Trucks and Parts	8
Transportation Equipment (Aircraft, Ships, R.R. eq'pt)	3
Fabricated Metals and Instruments	7
Chemicals	7
Paper and Pulp	6
Rubber	8
Stone, Clay and Glass	8
Petroleum and Coal Products	2
Food and Beverages	6
Textiles	5
Miscellaneous Manufacturing	8
All Manufacturing	7

Sales gaps. There is a wide spread among sales forecasts of different industries. The auto, trucks, and parts manufacturers expect sales to increase 8% next year in physical volume. Other transportation equipment makers, largely aircraft, figure that sales will rise only 3%. With most airlines fully converted to jets, the aircraft industry sees its sales gain coming from defense spending.

The smallest sales increase is expected by the petroleum industry, which looks for only a 2% gain. Obviously, oil companies are boosting their outlays by 10% not because they expect to be short of capacity in 1962 but for modernization and capacity needs that lie beyond 1962.

No inflation. The McGraw-Hill fall survey found no fear of inflation in the prices of capital goods. The companies expect the prices they will have to pay for new plant and equipment will be less than 3% higher than in 1961.

There's considerable variation among industries as to what they expect to pay for new capital equipment. Food and beverage companies see an increase of only 1%—while machinery companies figure on 4.5%. All other industries cluster close to the average of 2.6%. **End**

U.S.-Japan talks miss the mark

Japanese officials felt disappointment over our failure to promise easing of trade restrictions, though U. S. Cabinet members came away fairly satisfied with meeting

The Cabinet-level U. S.-Japan Committee on Trade & Economic Affairs, a novel experiment in international economic relations, met for the first time last week in Japan, at Hakone, a resort near Tokyo. It got off to a less-than-rousing start largely because each delegation had a different idea about what the conference was supposed to accomplish.

On the U. S. side, the meeting went off as expected. The discussions were broad and general, with no negotiations undertaken nor any specific results achieved.

From the Japanese side, the meeting was something of a mild failure. The Japanese had expected U. S. delegates to give some assurance that restrictions on Japanese exports to the U. S. would be relaxed. Such assurances were not forthcoming.

High-level group. The committee, which was formed by Pres. Kennedy and Prime Minister Hayato Ikeda during the latter's visit to the U. S. last June [BW Jun.17'61,p131], is composed of Cabinet officers and other high-ranking government officials. It is intended to smooth out economic problems between the U. S. and its major Asian ally. The U. S. is Japan's best export market; Japan is the second best customer of the U. S., after Canada.

Although the committee was formed expressly for economic purposes, there are political implications. By sending such a high level delegation outside the country for the first time in history, the U. S. sought to assure not only Japan but other Asian allies that it has not forgotten them in its concern with economic and political events in Western Europe.

Representing the U. S. at the conference was Secy. of State Dean Rusk, Interior Secy. Stewart L. Udall, Commerce Secy. Luther H. Hodges, Agriculture Secy. Orville L. Freeman, Labor Secy. Arthur J. Goldberg, Under Secy. of the Treasury Henry H. Fowler, and chairman of the Council of Economic Advisers Walter W. Heller.

On the Japanese side were Minis-

State Secy. Dean Rusk (right) and Japan's Prime Minister Hayato Ikeda stroll in garden of villa at Hakone, resort near Tokyo where economic parley was held.

ter for Foreign Affairs Zentaro Kosaka, Minister for Finance Mikio Mizuta, Minister for Agriculture & Forestry Ichiro Kono, Minister for International Trade & Industry Eisaku Sato, Minister of Labor Kenji Fukunaga, Director General of the Economic Planning Agency Aiichiro Fujiyama, and Chief Cabinet Secy. Masayoshi Ohira.

Agenda. The agenda for the committee, which is scheduled to meet in the U. S. next year, included such topics as trade expansion, labor and production costs, balance of payments, and aid to underdeveloped countries.

Well in advance of the conference, Japanese industrialists met with Cabinet ministers to outline what each would like to see come out of the meeting with the Americans. Tangerine and tuna interests, steelmen and flatware men all viewed the visit of half the American Cabinet as a sure sign that the U. S. was about to relax restrictions against imports from Japan.

No negotiations. But Rusk insisted the precedent-making conference would not include negotiations, and it became apparent during the sessions that the Americans were sticking to this position.

In addition to the formal meetings, each American official was hosted by his opposite number for more intimate talks at various resort inns and private residences. But the off-the-record conviviality presumably was no more productive to the hosts than the formal sessions. Aware of the danger lurking in the pine and willow world, Rusk reportedly warned his colleagues to be "terribly cautious" about anything that in the future might be construed as a commitment.

During the conference, the Japanese described the adverse effect that the "buy American," "ship American" policies were having on Japan's foreign exchange position and cited the estimated $900-million deficit it will suffer in trade with the U. S. this year.

The Americans felt there was a tendency for the Japanese to look at U. S. purchases from Japan, match the dollar figure against what Japan was buying from the U. S., and see in the deficit the whole problem.

'Spirited exchange.' The discussion of expansion of trade between Japan and the U. S. led to exchanges described by U. S. Ambassador Edwin O. Reischauer as "spirited but friendly." Another observer described the discussion as a "no holds barred" exchange. The Americans felt the Japanese didn't appreciate the connection between the American gold outflow and its foreign aid and military spending around the world.

The American Cabinet committee detailed how the American $4-billion to $5-billion export surplus still resulted in an unfavorable balance of payments because of the extensive aid given to underdeveloped nations and military assistance expenditures.

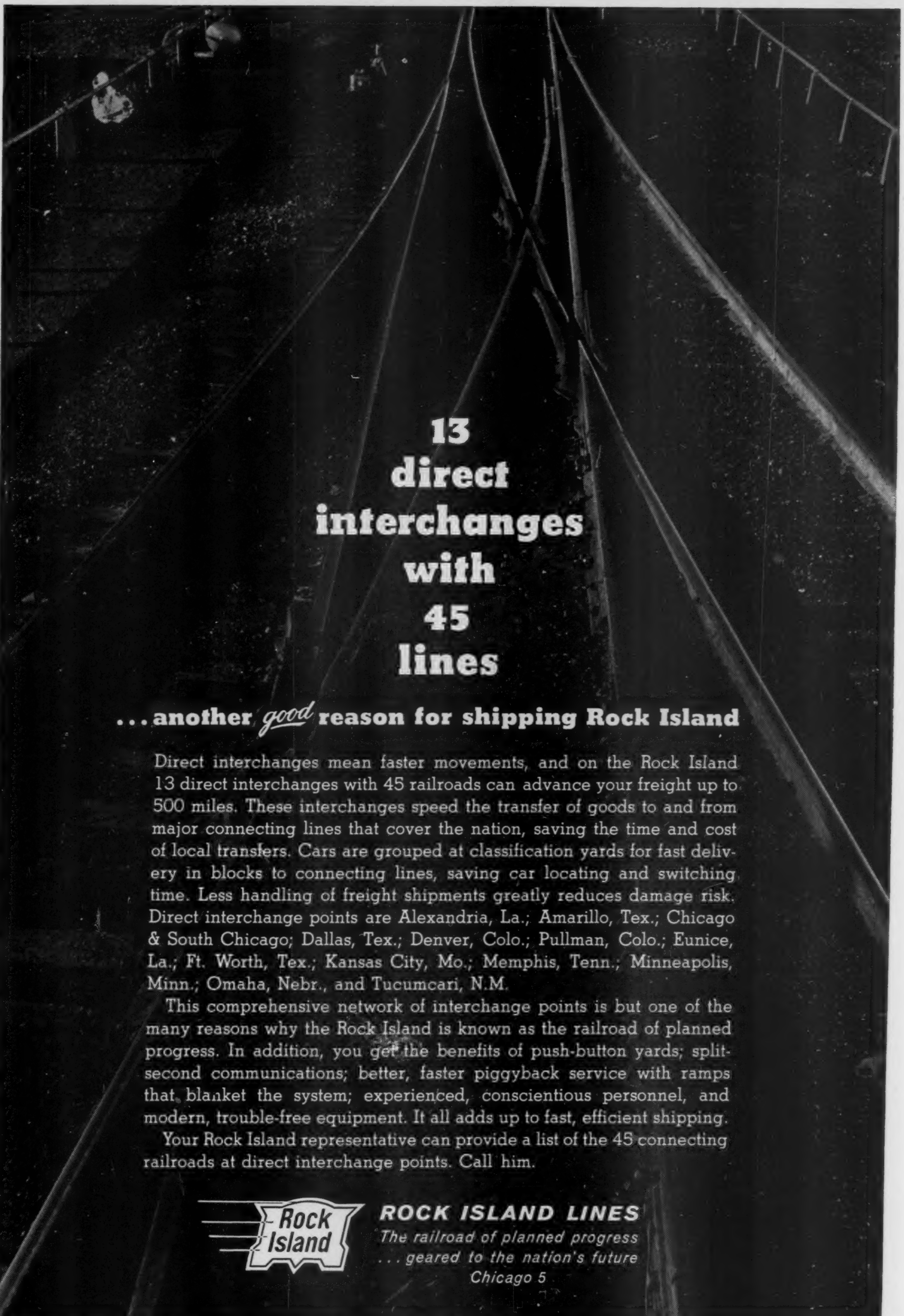
CEA Chmn. Heller described as "strong and direct" the relationship between the U. S. domestic economy and its international trade. Commerce Secy. Hodges cited current U. S. unemployment figures and indicated how a domestic recession inevitably had to bring a drop in imports. He also referred to the feeling by workers in depressed industrial areas against an upsurge in Japanese imports.

The point was made that Japan must import heavily because of its current prosperity, whereas the U. S. needs to import less proportionately because of its slower rate of expansion. The nature of imports of the two countries also was described as different—almost everything that Japan imports from the U. S. is noncompetitive with its domestic industries, while almost everything that the U. S. buys competes with American-made goods.

U. S. suggestion. As a solution to Japan's export-import imbalance, the Americans suggested that the Japanese broaden the base of their international trade with other countries of Asia and with Europe. The Americans indicated they would support Japan in its campaign to lift the discriminatory restrictions of Article 35 of the General Agreement on Tariffs & Trade. A number of West European countries have invoked this clause against Japanese products.

Japanese reaction. The conference ended with a very general 21-point joint communique. The powerful Asahi newspaper editorially expressed disappointment at the conference, saying that the U. S. "showed no consideration over specific measures to expand trade to the U. S." A spokesman for the Japanese financial group said the "Hakone balance sheet showed a minus for Japan."

American viewpoint. One American delegate sighed, "Things that each side takes for granted aren't necessarily known to the other." Another delegate said, "Life is more complicated for both sides than appears at first, but we want the Japanese to realize that we act not arbitrarily but from compelling reasons." **End**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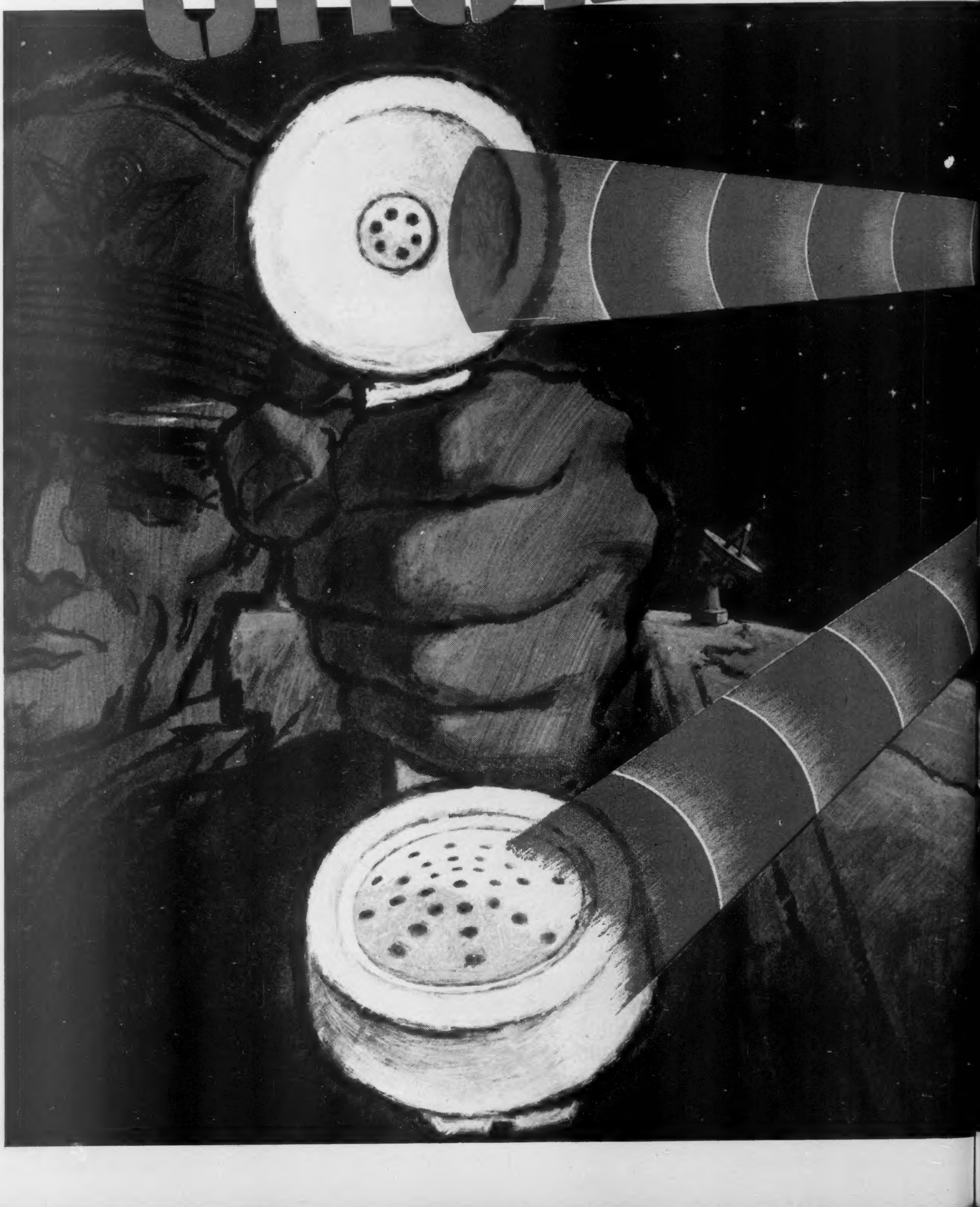


Board of Inter-American Development Bank includes member nation representatives, has simultaneous translation system

Bank pushes Latin progress plan

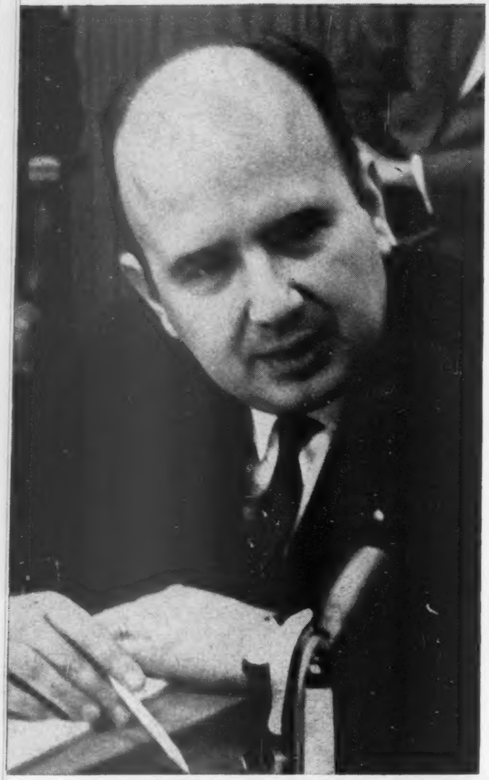
Inter-American Development Bank takes a key role in funneling Alliance for Progress funds into Latin America; but it has yet to tackle problem of needed reforms

A new institution, the Inter-American Development Bank, is becoming a focal point for the Alliance for Progress, the 10-year economic development plan for Latin America. It is beginning to funnel U. S. and other funds into Latin American nations, and to act as a clearing house for information and economic projects for the lands south of the border.

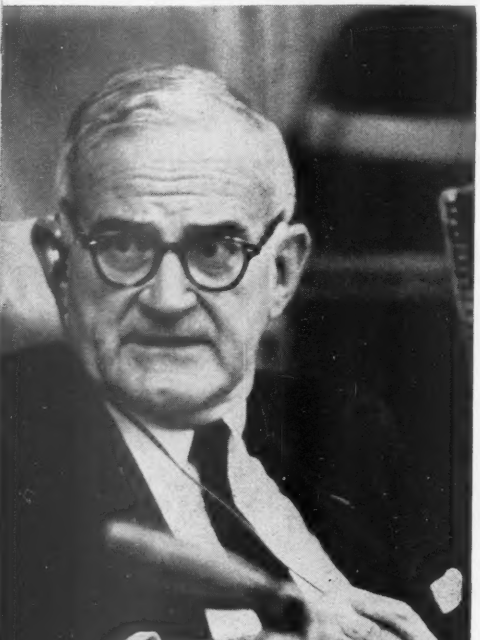
Founded a year ago, IADB has been fitted into a key spot within the Alliance for Progress framework. It is now pulling together more than $1-billion in lending capital, with more promised each year during the decade. It has begun its lending operations, its economic advisory services, and its efforts to draw together various private and government agencies in consortiums to help finance Latin American projects.

But the Inter-American bank has yet to confront its most difficult task—persuading Latin American governments to undertake the tax, land, and other reforms required for success of the Alliance.

As the program takes shape, this will be the crucial test of the willingness of Latin American countries to help themselves. IADB hopes to be instrumental in pushing this aspect of progress, although it will not carry the burden alone. All lending in-



Felipe Herrera of Chile, head of Inter-American bank, has put it in strategic spot in Alliance for Progress loan setup.



Robert Cutler, representing U. S. on bank board, was a Boston banker and special assistant to Pres. Eisenhower.

stitutions will share the responsibility. Ultimate responsibility, of course, lies with the Latin American governments.

I. Strategic spot

In its broadest outlines, the Alliance for Progress calls for an annual infusion of $2-billion into Latin America. Of this, the IADB will probably put in $500-million. The Export-Import Bank may furnish $400-million and the Agency for International Development (AID), the new economic assistance unit in the State Dept., will inject $200-million.

The remainder is expected to come from the World Bank, U. S. private investment, and European and Japanese private investment and government assistance.

Trying to pull together a massive economic assistance plan and to overcome the awesome economic and social problems in Latin America requires central coordination. Otherwise duplication, waste, and dissipation of funds and efforts could make a shambles of the entire program.

By default. IADB is moving into this sort of function as much by default as anything else. When the U. S. came up with the Alliance for Progress proposal, the Organization of American States seemed a logical place to put responsibility for it. But OAS did not get the job because it was beset with internal bickering.

Then came the Punta del Este conference in Uruguay last August, the first major move to get the Alliance under way. At the conference, Raul Prebisch attempted to have himself established at the head of a committee that would oversee Alliance economic planning and projects. Prebisch is head of the U.N.'s Economic Commission for Latin America (ECLA).

But Prebisch failed because many of the larger Latin American nations didn't want another body such as the committee proposed by Prebisch intervening between them and the source of funds. Moreover, many Latin Americans and North Americans are skeptical of the ideas held by Prebisch on economic planning and development, which place heavy reliance on government action.

Moving in. Led by its energetic president, Felipe Herrera, former finance minister of Chile (top picture), IADB saw its opportunity and has pushed itself into the gap. Herrera believes that unless some unit coordinates the Alliance effort and insists upon the reforms that the Alliance plan requires, the whole thing will fall apart.

The U. S. and most of the Latin Americans are willing to see IADB take over the functions of coordinator. When it comes to the rough job of insisting on reforms in the Latin American countries, the U. S. will stand aside and let IADB, with its basically Latin American approach, run the show. This way, Washington officials hope to avoid a Latin American cry of "intervention."

The Latin Americans are happy to see a single center of economic coordination evolving. It saves time, energy, and possible ulcers resulting from running around to the various lending agencies with projects in hand. Also, decisions made by a bank run by Latin Americans should go down easier at home.

II. Evolution of a bank

Originally, IADB was supposed to be a quiet little Latin American bank. It was agreed to by the U. S. as a concession to the Latin Americans, who have been talking about a regional bank ever since the first inter-American conference in 1890. After World War II, their clamor increased, on the grounds that the newly formed International Monetary Fund, the World Bank, and the Export-Import Bank were not equipped to fill Latin America's particular needs. The U. S. disagreed.

In 1958, however, in response to growing political unrest manifested in the outbreaks during Vice-Pres. Nixon's Latin American trip, the U. S. agreed in principle to formation of the bank. Even then, the U. S. felt that the bank would be more of an instrument for Latin Americans to blow off steam than an effective tool for economic development.

Getting started. Then in 1959 came Fidel Castro and the repercussions of his movement throughout Latin America. Last year, IADB was assembled, with the U. S. agreeing to put up $450-million of the $1-billion in capital, the Latin Americans the rest. This will be paid into the bank or put into a reserve fund in the member government banks over the next couple of years.

In addition, the U. S. has designated IADB as manager for the $400-million social development fund that was promised at the Bogota conference in 1960 and voted by Congress this year. Washington says that another $250-million a year will go into IADB for economic and social development projects.

By the end of 1961, IADB will have disbursed 60 loans totaling $250-

million to 18 different countries. In comparison, the World Bank lent \$609-million last year. To support its claim to be a funnel for Alliance for Progress funds, IADB has labeled most of its loans since the Punta del Este meeting as Alliance loans.

Loan program. As its lending operations pick up, IADB will be making three types of loans.

The first are similar to those the World Bank makes. IADB will have \$850-million for economic development projects such as electric power development, irrigation, and roads. These loans will run from five to 10 years, and carry up to 5¾% interest, and are repayable in dollars or other hard currencies.

In this category, however, IADB goes into private business ventures that the World Bank rarely touches. This month, for instance, IADB is lending \$615,000 to Brasquip, a Brazilian oilfield equipment manufacturer that is working under a licensing arrangement with Hughes Tool Co., of Houston.

IADB's second type of loan, for which it will have \$150-million, is for countries and projects that don't qualify for loans under usual banking terms. They run for periods up to 20 years, pay 4% interest, and are repayable in local, or "soft," currencies.

A \$10-million loan of this type was made recently to Bolivia for farm credits, rural electricity, and irrigation. Bolivia, in bad shape politically and economically, couldn't get loans elsewhere. Similarly, Brazil's Banco do Nordeste got \$10-million to develop private industry in that nation's parched, impoverished northeast.

IADB's third form of loan goes into so-called social development projects—housing, education, public health, land reform. These loans stretch out to 30 years, with 2% interest or less, and are repayable in local currencies. Two weeks ago, Peru got IADB's largest single loan to date—\$23.8-million for housing. Most of this will go into the Peruvian government's new housing institute to build 40,000 homes for low-income families. The loan will run for 20 years.

III. Middleman role

In addition to lending its own funds, IADB is acting as a catalyst or middleman in getting together lending consortiums to help finance Latin American projects. It sells this idea to potential lenders by offering them attractive interest rates (up to 5¾%), guaranteed loans (IADB will see that a borrower's default is covered), and a chance to build markets and services for themselves.

Within recent months, it has pulled nine U. S. and European banks into a consortium to lend Mexico \$13-million for irrigation projects. In a Peruvian venture, IADB got 14 private U. S. banks to buy \$1.5-million worth of bonds. One of the U. S. banks had never before made a loan in Latin America. For Bolivia, IADB got government funds from the U. S., West Germany, and Argentina.

Adviser. IADB is also moving into economic planning and technical assistance. This month, IADB is heading a mission to form a new development bank in Haiti, the Institut de Development Agricole et Industriel. Venezuela has asked IADB to round up several hundred million dollars for a national economic development program.

Besides IADB's financial help to Bolivia, IADB technicians and others they have hired are advising the Bolivian government on its economic problems.

Checks and balances. IADB is run by a board with representatives from member countries (picture, page 84). Robert Cutler, a former special assistant to Pres. Eisenhower and onetime chairman of Boston's Old Colony Trust Co. (picture, page 86), speaks for the U. S.

Herrera, the bank's president, has installed a system of checks and balances within the bank's executive group. If the top man in any department is a Latin American, the second is a North American and vice versa.

Behind Herrera is Executive Vice-Pres. T. Graydon Upton, a former Assistant Secretary of the Treasury. The bank's operations' chief, Ewaldo Correia-Lima, once head of Brazil's National Development Bank, is seconded by Lincoln Sandelin, formerly a loan officer at the World Bank.

It's the other way around in IADB's legal office, which is headed by Elting Arnold, formerly with the U. S. Treasury, and backed up with Rodrigo Lloronte, former finance minister of Colombia.

When Herrera wants to impress the Latin American brass, he sends someone such as Correia-Lima or Ignacio Copete, who was head of Colombia's federal bank. They are all well known in Latin American financial and governmental circles. If the IADB mission is to approach U. S. bankers, Herrera sends out Upton, or Robert B. Menapace, formerly with the Development Loan Fund, or Lambert E. Jones, who was once with Ex-Im. **End**

In business abroad

Red Chinese mission in Canada seeks to ease the imbalance in trade

One of Communist China's biggest problems today is how to generate enough foreign exchange to pay for its rising tide of imports. Moscow apparently isn't about to advance much money. The answer, then, is an increase in exports.

That has been the aim of a 13-man Red Chinese trade and agricultural mission now touring Canada. Although it doesn't officially recognize the Communist Chinese regime, this year Canada will ship about $90-million worth of grain to that country. **And that's only the first installment of an agreement calling for a total of $362-million worth of agricultural products by December, 1963.** On top of this, Canada plans to export several million dollars worth of metals and machinery.

But Communist Chinese exports to Canada have been falling drastically in recent months. Last year, Communist China sold some $6-million worth of goods —cotton goods, furs, and walnuts—to Canada. In the first half of this year, the total is down to $2-million, with no late surge in sight.

This leaves Communist China with a large deficit in its trade with Canada. The Red mission hopes to ease it by increasing exports to Canada to $12-million annually.

Although the Canadians would like to promote this two-way trade, it will be difficult. Once the trade mission leaves, Peking will have no representation in Canada to continue trade talks with Canadian businessmen.

That's why Peking is planning to set up a permanent trade mission in Canada—if it can get permission from Ottawa.

Imperial Chemical joins chorus of anti-dumping charges against U. S.

Britain's chemical industry is the latest in Western Europe to charge U. S. chemical producers with dumping [BW Nov.4'61,p.107]. Imperial Chemical Industries, Ltd., announced this week that it will ask the Board of Trade for anti-dumping legislation against polyethylene imports from the U. S.

Although the application will be submitted on behalf of ICI alone, other chemical companies probably will offer various kinds of support to the charges. At least one, Union Carbide, Ltd., subsidiary of Union Carbide Corp., will back ICI's move by filing its own application with the Board of Trade. Another, Monsanto Chemicals, Ltd., subsidiary of the U. S.-based Monsanto Chemical Co., this week stated that it would support ICI.

While polyethylene imports were the only ones singled out for anti-dumping action, others soon may be under attack. British chemical manufacturers claim that U. S. companies are dumping other polymers onto the market, but so far no anti-dumping applications have been announced.

General Motors seeks listing on two West German stock exchanges

A consortium of West German banks, headed by the Deutsche Bank, this week is negotiating to introduce General Motors Corp. stocks on both the Frankfurt and Dusseldorf stock exchanges. GM shares already are being traded on two other European exchanges—Paris and Brussels.

The move comes on the heels of the introduction of International Telephone & Telegraph Corp. shares on the Frankfurt exchange [BW Aug.19'61,p64]. These were the first U. S. shares to be traded in West Germany since the 1930s.

West German steelmakers see expansion as answer to British entry in EEC

West German steelmakers aren't too happy about Britain's pending entry into the European Economic Community (EEC). Wary of British competition for Europe's highly competitive steel market, they see a planned expansion of production as the answer to the British.

Here's what the West Germans are worried about: By 1965, Britain will be producing about 32-million tons of ingot steel annually, compared to 24.7-million tons last year. **Because almost 50% of all British steel is smelted from domestically mined ore, the Germans fear that British steelmen are in a position to offer Europe's fabricators more favorable terms.**

West Germany's answer is to increase annual capacity from the present 35.4-million tons to 41.3-million tons in 1964. After investing $250-million in new plant and equipment last year, the industry will invest $425-million this year, followed in 1962 with $400-million.

Business abroad briefs

France's government-controlled oil producers grouped into Union Generale des Petroles plan to build two inland refineries in France—one outside Lyon, the other in the Paris Basin at Montereau. Each will have a 30,000-bbl.-a-day capacity and should start producing in early 1964.

Aluminium Limited of Canada has announced that it is closing down all its bauxite operations in the Republic of Guinea. After a financial hassle with the government of Guinea, Alcan was asked officially to end all bauxite operations in that country.

With building blocks like these...

RESEARCH

Solid fuels gain space role

Space planners look with increasing favor on idea of segmented solid-fuel rockets to get the power they need to propel spacecraft of next few years

Solid-fueled rockets are poised for their longest stride yet toward the assignment to power tomorrow's U. S. space effort.

Recent static test-firings by United Technology Corp. [BW Aug.12'61, p38] and Aerojet-General Corp. [BW Sep.2'61,p28] went a long way toward proving the practicability of segmented solid fuels. As the drawing above shows, fuel segments—cylindrical, tapered, or pie-wedge-shaped—can apparently be put together to make enormously powerful rockets.

This week, the Defense Dept. was reported to be at the point of allocating an initial $77-million to the Air Force for the development and design of a segmented solid rocket with a diameter of 120 in. and a thrust of millions of pounds. A full four-year development program for such a rocket could cost as much as $600-million.

The Air Force is expected shortly also to contract for development, on a more limited scale, of an even larger solid-fueled rocket: 156 in. in diameter.

Their big chance. In the postwar buildup of an arsenal of missiles, liquid-fueled rockets stole the show: Redstone, Thor, Jupiter, Atlas, Titan. Solid rockets consistently have lagged three to five years behind the liquids. Only in the last few years have they gained equal acceptance in small or medium-sized missiles, up to the scale of Polaris and Minuteman.

Solid rockets established these gains by solving two major problems: (1) how to bond the propellant to the case and (2) how to control the amount and angle of the thrust. Now they get their chance in the field of giant boosters as a byproduct of the Air Force's move into the space field [BW Oct.21'61,p128].

The maiden flight of Minuteman last February [BW Feb.4'61,p20] was the first real proof that it might pay the U. S. to develop solid-fuel engines for space work. In its first live firing, the three-stage Minuteman performed perfectly at its full range of 4,600 mi., in contrast to the slow development and frequent setbacks of the big liquid engines, Atlas and Titan.

Men from companies interested in solid rockets did not fail to point this out when they testified in late spring before the House Science & Astronautics Committee, seeking a place for solid rockets in the big booster development program of the National Aeronautics & Space Administration. They said they could get a solid booster of 3-million-lb. thrust ready by 1963.

Picking up the idea. The late Rep. Overton Brooks (D-La.), chairman, and his committee recommended that Congress immediately allocate $50-million for contracts to study the feasibility of big solid boosters. Pres. Kennedy went still further in his budget request for fiscal 1962, and Congress approved his suggestion of $62-million for solid rocket development.

On Aug. 3, a joint committee was set up to study U. S. booster requirements through the 1960s, with Dr. Nicholas Golovin of NASA and Dr. Lawrence Kavanau of the Defense Dept. as co-chairmen. The committee was given 90 days in which to survey the research and investment of companies in both the solid and liquid rocket fields and to decide what best would suit the U. S. in light of its new space objectives.

Last week, the report was finished, and one of its recommendations reportedly called for the 120-in. segmented solid booster.

Liquid rivals. The turn of the tide toward big solid rockets may have come just in time, as backers of those rockets insist. Despite the first-flight success of Saturn, a liquid booster with 1-million-lb. thrust from its cluster of engines [BW Nov.4'61,p30], the liquid booster development program over-all offers

... U.S. may be able by 1966 to build rockets powerful enough to put 65 to 75-ton spaceships on the moon

little reassurance of near-term success.

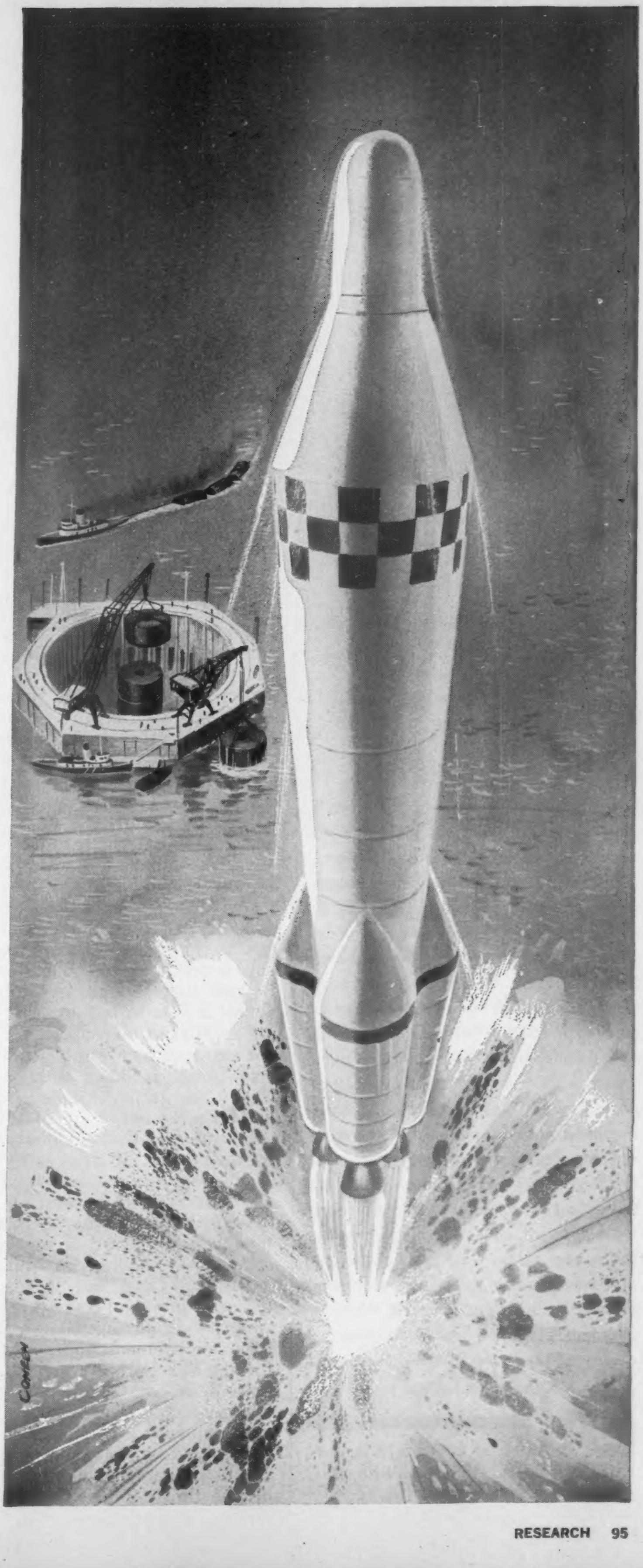
Saturn III and Nova are still on the drawing boards. And both depend on successful development of the giant 1½-million-lb.-thrust F-1 engine that will be clustered to make these boosters. Centaur, a booster that uses a modified Atlas as its first stage and still-untested liquid hydrogen-liquid oxygen engines in its upper stages, has slipped nearly a year behind its development schedule.

Pros and cons. Liquid fuels are generally cheaper and lighter than solid fuels, and they have a greater specific impulse (a greater thrust for a given weight of propellant and a given burning time). On the other hand, solid fuels require much less hardware.

Essentially, solid rockets are nothing more than a large firecracker with a head cap, a hole down the middle, and an exhaust nozzle. They have virtually no moving parts, no pumps or pressure systems to worry about. Thus, they are readier to fire and tend to perform more reliably.

Making solid fuels. Ingredients of solid fuels are less exotic, too. A typical blend would be a synthetic rubber, such as polyurethane, as a binder; ammonium perchlorate as an oxidizer, and finely powdered aluminum as a fuel. Other chemicals are added to act as plasticizers, stabilizers, and burning rate regulators.

These materials must be blended in a vacuum and at a rigorously con-



Launching of big space boosters of the future may be from water rather than land. One proposal is to float segments of solid fuel to a cofferdammed site, assemble them, then let water in for launching. A firing from water gives greater stability of thrust than from land, and water absorbs the great heat.

trolled temperature. The moment of greatest danger comes when the oxidizer is added, usually as one of the final steps. After mixing, the "goop" is poured, or cast, in the casing and cured for days in an oven.

From this point on, the experts say, solid propellants are easy to handle. In only a thin plastic coating, they can be stored indefinitely; they can be hauled through the water with little or no worry about corrosion or deterioration.

The segment idea. The technique of casting solid boosters in segments to be assembled at the launch site grew out of the problem of transporting huge rockets of multimillion-lb. thrust. But other advantages now appear.

For example, a segment can be developed and tested in relatively short time, and segments can then be put together in the number and design that suit a given mission. Solid fuels are inherently rigid; they can be stacked and clamped without heavy casing or bracing.

By spring of 1963, industry spokesmen say, solid-fuel segments each of multimillion-lb. thrust can be tested and ready. By the end of 1964, it's possible that an entire rocket system, using a segmented first-stage and solid fuels in most if not all of the upper stages, could be designed and readied for space use. Some industry people say it could produce the 13-million lb. of thrust needed to send NASA's first three-man Apollo spacecraft to the moon.

Such companies as Aerojet and United Technology, which have already fired big segments, see little difficulty in scaling up their manufacture or testing facilities to accommodate segments up to 156-in. diameter. Beyond that, though, it would take almost a year to build curing ovens big enough to take the larger casts.

Transportation problems would also dictate facilities close to Cape Canaveral. In anticipation, Aerojet has taken an option on 75,313 acres in southern Dade County, Fla., southwest of Miami, and United Technology has options on a similar site near West Palm Beach.

Aerojet-General. As the time approached for award of the first big solid-fueled booster contracts, Aerojet-General Corp. had the record for the most powerful test firing. In last August's firing, an 80-ton, 100-in.-diameter segment under static test for the Air Force produced almost 500,000 lb. of thrust. This was a straight-sided segment that would make up into a cylindrical booster.

Five to seven such segments would probably give the Air Force all the thrust it needs to test such ideas as rendezvous and manned surveillance in near space. The Air Force is interested in developing a 120-in. solid rocket largely for Projects Phoenix and Dyna-Soar.

Two segments of the 100-in. rocket have been tested now at Aerojet's grounds in Sacramento; another is scheduled for test by year-end, and a fourth by next March.

Aerojet says it could move up to the 120-in. size with ease, getting development under way immediately; it might take six months to tool up and procure handling equipment for the 156-in. size. Company executives say a 1½-million-lb.-thrust segmented solid booster could be ready for flight testing within 24 months.

The company is already busy in other solid rocket programs: the Navy's Polaris, the Air Force's Minuteman and Skybolt, and NASA's Scout.

United Technology. NASA has been supporting United Technology Corp. in its development of segments that taper, in contrast with the cylindrical shape favored by Aerojet. United, too, fired a big solid-fuel segment last August. It produced only half as much thrust as Aerojet's segment, but its burning time was longer per pound of fuel (slower burning means less jolt for passengers or instruments carried by a rocket as payload).

United Technology spokesmen also claim another advantage for the conical segment: If it is scaled up to say 200 or 240 in. to obtain a thrust of 20-million lb. or so, it should be structurally stronger than a cylindrical assembly. A 20-million-lb. thrust might make a solid booster eventually a candidate for the first stage of Nova, instead of the planned cluster of F-1 liquid-fuel engines. Nova is based on the possibility of getting 20-million to 25-million lb. of thrust.

Development and testing facilities at Sunnyvale and Morgan Hill, Calif., could be put to work almost immediately, United executives say, for segments up to 156 in. diameter. It would take 9 to 18 months to set up new operational test facilities for solid segmented rockets above 156 in. diameter, they say. United has already made around 400 tests of segmented engines.

Lockheed. A third major bidder for Air Force and NASA contracts to develop and test big segmented solid rockets is Lockheed Propulsion Co. at Redlands, Calif. (until this month, Grand Central Rocket Co., but now a wholly owned subsidiary of Lockheed Aircraft Corp.).

Lockheed Propulsion estimates its

How and where giant space boosters can be launched is a big problem . . .

Story on page 94

investment in research and plant as "in excess of \$20-million" (which compares with about \$80-million for Aerojet and about \$30-million for UTC). Last July, it successfully fired a 36-in.-diameter segment that produced 30,000 lb. thrust, at its Beaumont (Calif.) Proving Grounds. Last month, its engineers fired a solid-fuel engine of 53,000 lb. thrust at −50F.

This kind of testing of solid-fuel segments under challenging environmental conditions is important not only for potential military uses of such rockets but also for a role in the civilian lunar and space probes. Lockheed spokesmen say this work has made a deep impression on the planners of space projects, helping to build up enthusiasm in the Air Force for solid-fuel rockets.

Two other candidates. Thiokol Chemical Corp. and Hercules Powder Co. have also done a lot of work and have built up testing facilities for big solid-fuel rockets, and neither can be counted out of any competition for contract awards in the new solid-fuel program.

At the recent New York meeting of the American Rocket Society to publicize its Space Flight Report to the Nation [BW Oct.14'61,p158], both companies had something to say about their findings through research in big solid boosters.

Thiokol. Engineers for Thiokol have been working both at Wasatch (Brigham City, Utah) and Redstone (Huntsville, Ala.). They say research has progressed to the point where they could make available for test, within 14 to 24 months, any or all of the following:

- A cluster of 160-in. diameter solid segmented engines, each capable of about 2½-million lb. of thrust.
- A cluster of four one-piece engines, each about 240 in. diameter and each capable of producing 5-million lb. of thrust.
- A huge engine 28 ft. in diameter, capable by itself of turning out 20-million lb. of thrust.

Hercules. None of the other solid-propellant makers proposes to go so far in the direction of segmentation as Hercules Powder Co. Hercules reasons that hoped-for uses are known but the weight-carrying requirements of space rockets are still vague, so the greater versatility that can be built into a rocket, the better.

Hercules proposes not only segmenting a giant solid booster in layers but also cutting each layer into pie-shaped segments (drawing, page 94). Instead of providing a conventional casing, Hercules would wrap the fitted segments on-site in a cocoon of glass fibers. After the segments had been assembled, it would wind the entire rocket in glass fibers and bond them with epoxy resins.

Winding of the case of a rocket of 10-million-lb. thrust would take 5 to 10 days, Hercules engineers say, and the whole unit could be put together in 40 days.

Assembly and launching. Planners of space projects like the direction of Hercules' thinking, even if they aren't yet ready to buy it completely. The idea would reduce the problems of handling and shipping boosters of increasing size; it would also pare down the weight of the casing.

For the immediate future, however, it's doubtful that NASA would award a contract for more than a feasibility study of such a radical and advanced plan.

Much more immediate is the problem of how and where the Air Force or NASA would be able to launch space boosters if and when they get up in the range of 10-million to 20-million-lb. thrust. Both the weight and the heat blast of such rockets are recognized as problems.

One suggestion that's already being discussed is a water launch area, perhaps 50 mi. off the Florida mainland (drawing, page 95). Its backers say it is feasible to tow floating segments of rocket fuel to a cofferdam-protected assembly point and stack the segments there, perhaps with Hercules' idea of winding the casing from glass fibers.

The water surrounding the launching site would be effective in soaking up the tremendous heat at blast-off, and the assembly would be little more difficult than on land, sponsors of the idea say. It's a fair bet that not long after the initial contracts for multimillion-lb. solid-fuel segments have been awarded, the Air Force and NASA will follow up with contract awards for the investigation of such ideas. **End**

Measuring stick for human senses

That's what could come of mathematical theory developed by Sylvania scientist on color perception. It could tell industry accurately what has best consumer appeal

After millions of years of hearing, seeing, smelling—of using his sensory organs—man may be on the verge of understanding, scientifically, just why his senses work in the mysterious and often unpredictable ways that they do.

For centuries scientists have been piecing together knowledge of the senses from an unrelated series of observations. But now, a new theory of human perception, developed by Dr. Huseyin Yilmaz, a research physicist at Sylvania Electric Products' Applied Research Laboratory in Waltham, Mass., may change all this into an exacting, systematic, and predictable science.

Dr. Yilmaz' theory is based solely on mathematics. If it proves out, it will offer scientists a concrete approach to accurate measurement of man's perception of the world around him.

Industry potential. The implications of such a measuring stick for industries turning out products that appeal to consumer senses—food, paint, textiles, perfume, and the like—are tremendous. There's the possibility, for example, that synthetic flavors, now produced by tedious trial and error, could be formulated immediately, and at will. That could happen if the Yilmaz theory can be developed far enough to determine mathematically what human taste reactions will be to any and all chemical combinations.

Such practical applications of the Yilmaz theory may be a way off, but once the basic nature of perception is understood, development in broad areas of the physical and biological sciences should be rapid.

Start with sight. So far, Dr. Yilmaz has formulated only a theory of visual perception. That's because sight, the most specialized of our senses, is limited to the perception of light waves and, therefore, is easier to deal with.

But the same formula approach can be used to describe human perception of taste, smell, touch, and sound. It's only necessary to define, mathematically, the chemistry, thermodynamics, or sound waves involved in these senses, as Dr. Yilmaz has done with light waves.

Dr. Yilmaz is now trying to apply his theory to hearing. He plans later to attempt mathematical formulations for the remaining senses.

Color blending. The new theory, stated in its simplest form as applied to sight, is that human color perception does not correspond directly to colors as they appear in their electromagnetic wave lengths. For example, the human eye sees green when blue and yellow are mixed. A spectrometer, under the same conditions, does not sense a third color but merely measures the blue and yellow wave lengths of the light sources.

This blending of colors is a unique biological process. The eye does not function as a spectrum analyzer but rather as a mixer, converting visible radiations into a color sensation which, to a large extent, is unrelated to the subject observed. Nevertheless, there is a relationship between colors that the eye perceives and the light waves actually present. Dr. Yilmaz has worked out this relationship in mathematical terms.

Basic points. First he assumed that human senses are evolutionary in nature. He began with the working hypothesis that vision is based on natural light distribution over the surface of the earth, and that the eye of an individual is designed primarily for detection and recognition.

He next assumes that natural light can be thought of, and measured, in mathematical terms, and that the optimum use of this light, by the eye, is also mathematical. However the eye may be constituted—the eye of a bee is different from that of a cat or a human being—it is adapted for the best use according to its needs. The common elements in all sight are the two conditions of optimum use and natural light.

Yilmaz uses this relationship to explain why the physicist's wave lengths and the colors the human eye perceives are different. The eye, he says, must adjust itself to a wide variety of light conditions, or become confused; a red brick house with a yellow roof must look roughly the same in the morning, under a yellowish sun, as in the evening rays of a reddish sun.

"Cocktail party effect." The eye, in effect, perceives in a way that conforms to a special theory or relativity in color vision. Mathematically, the human eye adjusts to different conditions by measuring the average light distribution. This average becomes the neutral or gray point for the eye. With colored lights, or with more or less light, the gray point shifts to meet those conditions.

The ability to change neutral points from one level to another, says Yilmaz, is fundamental to all senses, not just sight. For example, air is the neutral point to which we adapt our sense of smell; a certain natural noise level is the neutral point for our sense of hearing.

These levels are not constant and they can shift with the environment. At a cocktail party, for instance, it is possible to concentrate on a single conversation because the ear shifts to a new noise level or neutral point. In this way, the theory explains the so-called "cocktail party effect."

Next steps. Implications of the Yilmaz theory are already apparent. It explains how it takes combinations of blue, yellow, and red to produce all the colors of the rainbow.

It answers, by the shift of the eye's neutral point, how Dr. Edwin H. Land, president of Polaroid Corp., developed color film that uses only two basic colors, yet gives the illusion of a full color spectrum.

Employing the theory, technicians should be able to make simplified electronic color sensors for weather satellites. It should also be possible to improve military camouflage, as well as displays, paints, photography, and color quality control. Sylvania's information processing department is now considering these for future application.

The next step, however, will be to refine the Yilmaz color theory. Arrangements have been made to test it out on Cornell University's perceptron, a learning machine [BW Jun.25'60,p162].

The perceptron will simply be taught, by trial and error, to identify objects by human standards of color. Then, if the perceptron transforms light into color in the same way that man does, it will be strong documentation of the Yilmaz theory. **End**

In research

BW

Westinghouse starts test operation of saline water converter at San Diego

Westinghouse Electric Corp. has begun test operation of the 1-million-gal.-per-day saline water conversion plant it built in San Diego for the Interior Dept.

Westinghouse will test the multistage, flash point converter for 75 days, and Interior will turn operation over to a management contractor, not yet selected.

The San Diego plant is the third of five test plants to go into operation in the government's water conversion program. The saline water plant in Freeport, Tex., was the first, and at the end of last month, the brackish water conversion installation at Webster, S. D., went into operation.

Pentagon giving its civilian R&D people a status boost in pay, authority

The Defense Dept. is taking steps to bolster the status of its major research and development installations.

Laboratories will have greater authority over R&D projects, pay scales for engineers and scientists on military payrolls will be boosted, and management of laboratories will be streamlined to limit the authority of non-scientific administrators.

However, Defense officials make clear that the move is in no way intended to reduce the volume of R&D contracting to industrial and private nonprofit research organizations. The Pentagon's sole purpose is to boost the sagging morale of its civil service scientists and engineers, whose pay scales lag far behind industry rates.

The breakdown in Defense Dept. R&D contracting should continue its present trend: roughly 25% by the military's own installations, 5% by nonprofit research organizations, and the remaining 70% by industrial contractors.

350-million tiny reflecting wires for radio experiment get lost in space

Fast-moving space technology, the avant-garde of today's scientific age, has come a cropper with an old problem: trying to find a needle in a haystack. But this time it's not just one needle, it's 350-million metallic hair-like wires (dipoles) completely lost in space.

On Oct. 21st, **the Air Force sent a 75-lb. package of dipoles into space on a Midas satellite from Point Arguello, Calif.** The shot was to be the final phase of Project West Ford, a radio communications experiment, designed to test the feasibility of using a continuous band of frequency-tuned dipoles, five mi. wide and 25 mi. deep as a passive communications reflector in space.

The experiment, a joint project of the Air Force and Systems Command and MIT's Lincoln Laboratory, was supposed to have determined the effectiveness of such a dipole band in transmitting radio microwaves between distant points on the earth [BW Oct.7'61,p71]. **Although the Atlas-Agena carrier vehicle was launched successfully, neither Lincoln Lab nor Air Force radars can now find the needles.**

Although a Lockheed Aircraft team assigned to develop telemetry data says there is every indication that the needle dispenser was ejected at the right time and speed, it may be that:

- The container did not go into orbit at all.
- The dipoles are spreading out in another orbit instead of the planned orbit.

Locating the 0.7-in. long copper dipoles will be a rough task; scan radar communication techniques are strained to the limits of their capabilities in even communicating with the dipoles when they know where they are. **If the dipoles have gone astray—out of the planned orbit—chances of locating them are even more remote.**

Although special purpose radar communications "dishes" have been constructed at Camp Parks, Calif., and Millstone Hill, Mass., to send and receive the microwaves from the dipole band, their beam widths are too narrow to be helpful in searching for the missing dipoles. Regular radar units are even more useless for an accurate search at such great distances.

Rate of decline in tuberculosis called much too slow at present

Tuberculosis isn't disappearing fast enough for Dr. Edward T. Blomquist, chief of the U. S. Public Health Service's tuberculosis program. Although the 55,494 cases of the disease reported in 1960 represents a 5% drop from the 1959 rate, it is not enough of an improvement to eliminate the disease as a major health problem, says Blomquist.

Public health officials feel the annual decline of TB should be around 10%, and Blomquist points out that "the problem has reached a stage where the decline must be accelerated or the prevalence of the disease will level off, and tuberculosis will drag out as a long-term, expensive problem."

TB is already an expensive problem: Over $700-million is spent each year in the U. S. in fighting the disease. Unless the annual rate of decline can be improved to at least 10%, no sharp drop in costs is anticipated.

A disturbing fact is that from 1952 to 1959, the annual rate of decline has averaged about 8%. However, even though the rate was only 5% in 1960, Blomquist says "we do not expect an upsurge of tuberculosis in this country."

"With a combination of new drugs which effectively treat newly discovered cases of tuberculosis," says Blomquist, "and with families protected by isoniazid prophylaxis, we should effect an annual 10% decline."

Glamor industry takes its lumps

Shake-out among electronics companies is starting as industry matures after a decade of fast, youthful growth. To survive, a company will need sharp management

The business of staying alive in the electronics industry is taking on real meaning for the first time. As you can tell from the host of mergers in the industry, the shake-out has begun, and it will intensify as time goes on.

Semiconductor companies, regarded by investors only a year or so ago as almost automatic money-making machines, already are hurt. Texas Instruments, Inc., has seen its stock fall in the past six months from more than $200 a share to below $100. Transitron Electronic Corp.'s stock, once at $60—a common stock valuation of $450-million, not quite 10 times its 1960 sales volume—is now $18. Other companies have suffered similar setbacks. Although some of the worst knocks have been taken, more are to come.

This will be especially true with the development of integrated circuitry [BW Oct.28'61,p45]. Obviously, the price of admission into molectronics is higher than entry into run-of-the-mill semiconductor operations. Equipment and facilities are more expensive. And its development will be more rapid. Solid state physics was just being explored when the transistor was developed; today, it's fairly well researched. This means that smaller companies will find it harder to climb aboard the bandwagon; many now in the business will drop out.

Tougher financing. The shake-out is having a profound effect on the financial community. In the past, capital was readily available to any outfit involved in electronics. Indeed, the eagerness of underwriters and investors to get a stake in the industry is a major reason for the present distress. It has been relatively easy to enter the electronics field simply because there was no shortage of capital.

But the drop in the prices of electronic stocks has cooled investors. Investment banking houses are still underwriting new electronics issues, but they no longer command the high price-earnings multiples that had been the rule until this year, and selling them is a tougher job.

A more cautious attitude also shows up among lenders. They are insisting on tighter fiscal controls, particularly because it's hard to figure the value of a company loaded with unsalable inventory. And they are more selective in their loan-making. The troubles of the semiconductor companies, of course, don't apply across-the-board to the whole industry—companies in computers, microwave, and infra-red, for example, still appear to be riding high; on the other hand, companies in the resistor and capacitor fields seem to be in more trouble than semiconductor operations. So lenders now are picking and choosing with more care.

Financial men feel that mergers are essential. They want to see a shake-out of the weaker companies that, in an effort to stay alive, are indulging in practices that hurt the bigger and stronger companies. And they want to make it more difficult for companies to enter the field.

I. Slower growth

Competitive forces are having an impact throughout the electronics industry—most dramatically in semiconductors, but in other sectors as well. Ultrasonics companies have taken their lumps; antenna manufacturing is hurting; the same goes for switching and regular electronic tube lines.

Indeed, the whole industry is entering a new period, where the rate of growth will be slower for many sectors and where new strategies will have to be employed if a company is to survive.

The prospects. Electronic Industries Assn., the industry's trade organization, estimates that factory sales will grow only at the rate of about 7% a year over this decade. In contrast, the industry grew from a factory sales level of $2.6-billion in 1950 to a bit over $10-billion this year—an annual growth rate of 15%. Most of this came from a bulge in military electronics, which grew at an annual rate of 26%. But the government sector can't continue to expand as rapidly as it did in the early stages of the missile era.

Slower increases in the electronics portion of the defense budget will be painful. Government funds helped fast-moving small companies into the industry during the 1950s. But there may be less of that now, since defense systems—while sophisticated—will be fewer in number.

The consumer and industrial sectors can't be expected to take up all the slack. The consumer market hasn't been increasing at any significant rate; besides, it often isn't that profitable, except for the well-established companies. The industrial market is growing rapidly, but not rapidly enough to take care of all the companies that want to enter data processing, industrial controls, and communications.

No one contends that this means the industry's growth is over; in fact, for many companies it's just beginning—or about to take off again after a slowdown this year. As Dr. Daniel E. Noble, executive vice-president of Motorola, Inc., says: "Electronics is no longer an isolated field. It is generic to industry development as a whole, and we're just in the early stages of seeing it grow."

Management problems. But it will grow at a slower pace. And this slowdown will create a host of problems for companies accustomed to more rapid expansion. Until now, few worried about financing—or finance controls. But now this has become as important as technological developments. In fact, fewer and fewer companies have the money to bear the increased costs of development.

There are other challenges as well. Companies that have concentrated on making components—such as Texas Instruments—may have to decide whether to go into end products. It will be a tough decision to make. Investment in a sales organization runs high—and a wrong decision could be disastrous.

At the same time, integrated cir-

cuitry will demand closer ties between a systems designer and component maker. Indeed, this could be one of the strongest reasons for vertical integration.

Individual company growth also may be limited by what Warren B. Hayes, vice-president of Thompson Ramo Wooldridge, Inc., calls "technical inertia." Hayes believes technical flexibility in the industry has diminished. "It's easy to scrap a missile concept on paper, but very difficult to abandon a missile system in being or declare obsolete an installed continental defense system," he says.

Room at the top. As the industry matures, the race will begin to favor the giants. The advantages of sheer mass and integration are numerous, and more big companies are stepping more aggressively. The large airframe companies, such as Lockheed, Boeing, and Martin, are just making their move. Ford's takeover of Philco Corp. represents much the same sort of action. And General Electric is just getting into the diode business. If nothing else, these giants will exert a great deal of pressure on industry pricing.

But there will be room for smaller companies. Unlike the auto industry, the electronics industry will not be telescoped into just a few giants. It's too fragmented for that, and each fragment will have at least several specialists.

II. Sharp reversal

The semiconductor business is the prime example of what can go wrong in electronics. Prices have plummeted sharply in the wake of overcapacity and lower demand than anticipated. Price reductions are built into the industry's makeup (as they are in the drug industry)—new products start out high to cover R&D costs, then are lowered as competition sets in and engineering costs come down. But the slide has been faster than most expected, causing companies to make severe adjustments in inventories.

Thompson Ramo Wooldridge had to write down approximately $3-million in inventories of its subsidiary, Pacific Semiconductors, Inc. Transitron wrote down its inventories by $7-million, and ended up the fiscal year with a $1.5-million deficit.

All semiconductor companies have suffered by the price-cutting, but some are still making money. Fairchild Camera & Instrument Corp.'s semiconductor operation is in the black (sales and profits for the third quarter, though, were up only 18%, compared to gains of 36% in sales, 29% in profits for the year thus far). Motorola's operation also is profitable. So is Microwave Associates'.

Climb before fall. The present fall came after an extremely sharp climb. Sales of semiconductors grew from about $36-million in 1955 to about $525-million last year; transistors accounted for more than half of this. Future growth is still there—in transistorized TV sets, in data processing and industrial controls, among other industrial markets; in alternators instead of generators for autos; in silicon controlled rectifiers for power control. But the outlook is for less dynamic growth, unless requirements are larger than now estimated.

The recession hurt. However, the real sore spot was that it coincided with a lag of orders from the military. The industry's stockpiles were heavier than usual this year in anticipation of defense orders, which never materialized.

Price-cutting. In the first quarter of 1961, total industry unit volume exceeded 1960's first quarter by 40% or so. Dollar volume, though, was actually down as a result of a 30% reduction in prices. Dollar sales of germanium diodes, to cite one case, were down 7%, despite an increase of 80% in unit volume. Semiconductor companies reacted by cutting prices—and quality, say users—and by a forced-draft sales push.

The end result was a chaotic market, which may have seen its worst. Pres. David Bakalar of Transitron notes a lessening of drastic price-cutting, and other companies report backlogs are rising again. But price-cutting will continue to spread, and it will be hard for earnings to snap back with any vigor.

New controls. To speed the process, semiconductor companies are brushing up on matters they forgot when business was booming. Transitron has initiated a new centralized inventory control system. Texas Instruments has reorganized its management setup to give line managers more authority. Semicon, Inc., one of the small companies in the field, is switching its product line, to get away from mass-market items into specialty items. All will have to put more emphasis on materials, merchandising, and production techniques—for one thing, there will be more standardized items, taking the place of a host of others.

Moreover, the entry of GE into the diode business and the action of International Business Machines Corp. this past summer in setting up its own components division makes clear that the big systems designers are getting more interested

in components. IBM, up to now, had refrained from getting into the semiconductor business; it made none of the diodes, resistors, or capacitors it required. But as components get more complex, they represent a larger share of the engineering cost of a system, and IBM wants to insure its sources. IBM will not attempt to compete with component manufacturers in standard items like transistors and diodes. But its very presence in the field is a threat that it will do more of its own work if it doesn't get what it wants.

In all likelihood, the shake-out in semiconductor companies will be a drawn-out process. Hayes of Thompson Ramo Wooldridge insists that the industry will not stabilize until there are substantially fewer companies in it, but he adds that the attrition will take time—perhaps three years.

III. The pitfalls

The lessons to be learned from the semiconductor experience are many.

The most dangerous pitfall is the lack of management depth. One-man management cannot cope with a growing company, and many companies can't make the transition from a small to medium-sized company because the man at the head never learns how to organize a team effort.

Misleading bookkeeping. Some companies also have been less than conservative with their bookkeeping. They have overstated current earnings by deferring R&D costs, rather than writing off R&D expense as it occurs. One company, for example, provides for a 60-month straight line amortization of R&D expenditures to its entire product line. Another company spent close to $180,000 one year for research, yet charged only $9,000 to operations. In some cases, writing off R&D over a long period may be justified, but accountants generally feel it just deludes a company's management.

A number of small companies also have taken a big chunk of new business at a loss. Too many companies have been so product-oriented that they have neglected to recognize how hard it is to develop and penetrate a market. This contributed to the failure of closed-circuit TV and ultrasonics companies to capture more business.

Mergers also have been arranged haphazardly. Although strapped for working capital, some companies have acquired new companies—or gone into new areas—completely removed from their own scope. **End**

New man at Bank of America

Top management reaches to Bank of Hawaii for a new vice-chairman—Rudolph Peterson, who will be one of three bank officers on board, may be next president

California's Bank of America National Trust & Savings Assn., the nation's largest commercial bank (731 branches, $10.2-billion in deposits, and approximately 28,000 employees) prides itself in training its own management.

Since its founding 56 years ago, it has had only three real chief executives—A. P. Giannini, who built the bank from a single office in San Francisco's Italian section to a sprawling giant; Mario Giannini, who was A. P.'s son, and S. Clark Beise, who has run things since 1956. (Carl F. Wente served as interim president for two years before Beise took over.)

On Dec. 1, a new man, Rudolph A. Peterson, 57 (picture), will become a member of top management as vice-chairman, and the betting, both inside and outside of the B of A, is that he will eventually succeed Beise. Peterson served in the Giannini fold between 1936-46, but in effect he is an outsider, compared to the other men in B of A's headquarters, all of whom have served many years together. Pres. Beise personally reached outside and invited him to leave the presidency of the Bank of Hawaii to join the official family.

Heir apparent. Beise, who is scheduled to retire in two years, is not disclosing his plans for Peterson. But in filling the vacant role of vice-chairman, Peterson will be one of the three directors of B of A who are active banking officers—Pres. Beise and Chmn. Jesse W. Tapp, 61, are the others. Peterson has had spectacular success with Bank of Hawaii—known as Bankoh for short—and he will be given the chance to prove himself.

Brilliant record. Since Peterson became head of Bankoh in February, 1956, the bank's growth has been phenomenal. At yearend 1955, the bank had earnings of $874,000 and deposits of $163-million; it ranked 145th in the nation for deposits. Now the bank ranks 91st; it has increased its profits to $3-million, its deposits to more than $330-million.

Like the B of A, Bankoh has stressed the retail approach to banking. Under Peterson, it has increased its branches from 31 to 53, including one on Guam, 3,000 mi. from Honolulu. Bankoh became the first Hawaiian bank to sponsor a small business investment company. Education programs on use of the bank's facilities were started for minority groups, such as Hawaii's numerous Filipinos. Bankoh went into the charge card business, also offered revolving credit to depositors.

Rudolph A. Peterson once worked for Giannini but made mark in Hawaii.

Personal touch. All along, Peterson emphasized the personal touch. Every account at Bankoh, commercial or private, was assigned to a bank executive for personal attention. Some, like Henry Kaiser, get weekly attention. But all get at least an annual check of their affairs.

Peterson and his officers diligently followed a rule he laid down that all of them were to spend at least one day a week outside the office, servicing accounts. In this respect, Peterson is in the Giannini tradition. Giannini always stressed the personal approach—with both big and small customers—and believed in going out to get new business.

Credit training. Many of the things Peterson tried at Bankoh had their roots in his consumer credit training. Born in Sweden but educated at the University of California, Peterson started his career as a field representative for Commercial Credit Co.—dealing with uncollectible accounts and handling repossessions.

He was running the western division of CCC when Bank of America hired him in 1936. Eventually he was placed in charge of the bank's installment credit activities, then moved on to pull Allied Building Credits, a subsidiary of Transamerica Corp. (which was then controlled by B of A), out of a financial mire. Successful there, he became vice-president of Transamerica itself, supervising all its banking activities.

Not quite ready. Peterson says he's leaving Bankoh before he had planned. None of the young executives he was grooming for his job is ready, so Bankoh plucked out of retirement 67-year-old Julian R. Davis, a former B of A vice-president. Presumably, Davis will step down for a younger man in a few years—about the time Beise retires from B of A.

In bringing in Peterson, Beise is strengthening management in the area that B of A pioneered—retail banking. This was Giannini's contribution to commercial banking, and it has remained B of A's great strength.

But it's clear that Peterson would not have been brought in if the B of A felt that it had a ready-made successor to Beise. For the past few years, there's been considerable jockeying among the top men, but no one has emerged as a sure choice for chief executive.

Peterson faces some stiff competition, which may be what Beise wants. Peterson's presence should shake up the high command. They all have specific areas of responsibility—operations, loans, investment—but most have been involved in every aspect of the bank's activities in the course of their careers, and have a feel for what it is to run the whole show. **End**

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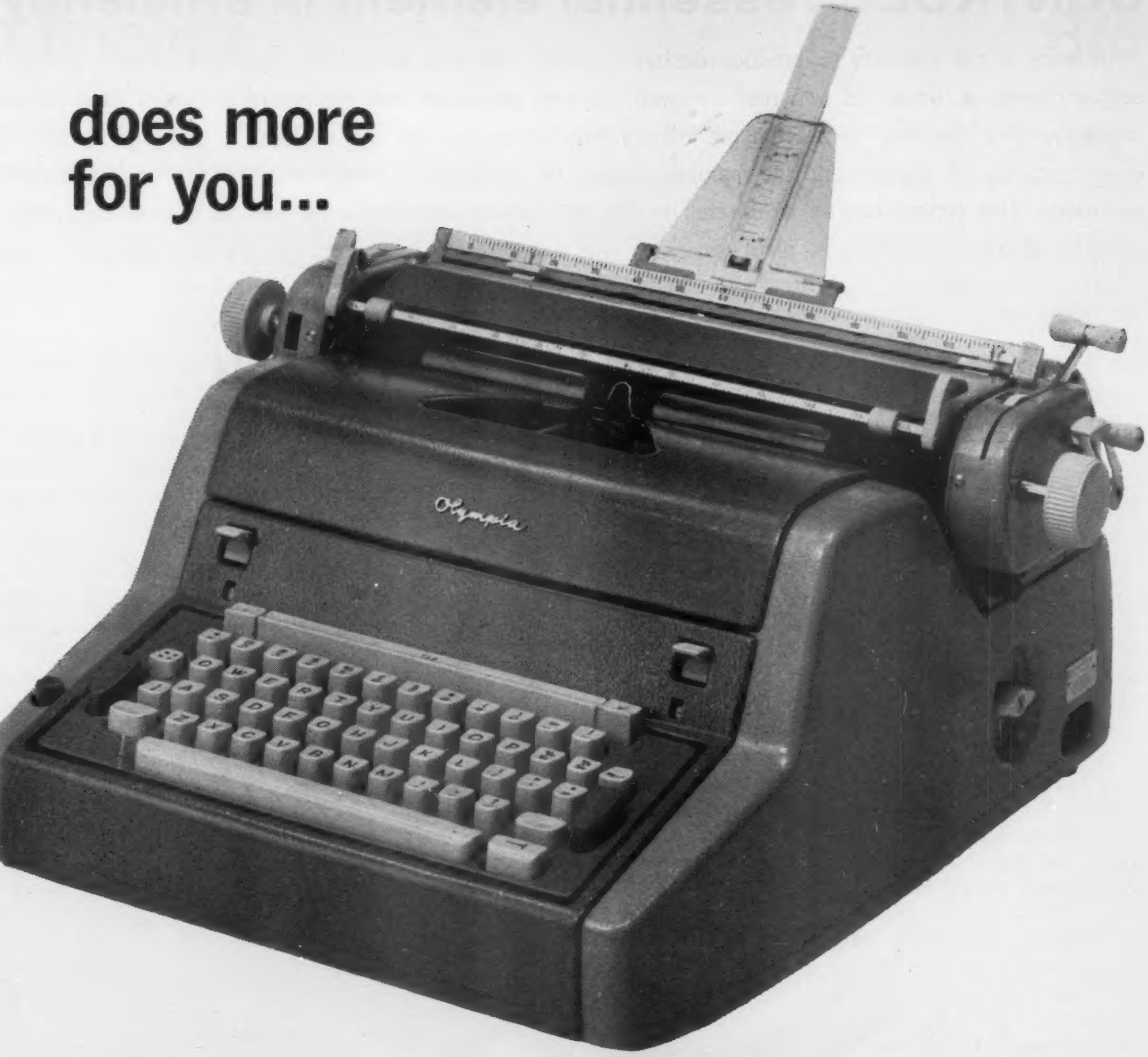

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In finance

BW

Cleveland bank bolsters capital position by sale-leaseback of major building

Cleveland's Union Commerce Bank—fifth largest in the city—has come up with a novel way of increasing its capital position and lending power. In a sale-leaseback deal with a newly formed real estate investment trust, it has sold Union Commerce Building, a 37-year-old office building with more floor space than any other building in Ohio, for $25.5-million and then leased it back.

The bank is netting about $21.5-million on the deal, of which $15-million—representing an addition to the bank's net worth—will be transferred to surplus. Thus, the bank's capital and surplus will go to $45-million from $30-million, and its loan limit to a single customer (10% of capital and surplus) will go to $4.5-million from $3-million. Chmn. George R. Herzog says the bank's percentage of capital to deposits will be in excess of 16%—one of the highest in the country.

Under the lease, Union Commerce will pay First Union Realty, a real estate trust, $1,670,000 in rent annually during the first 30 years of the lease, plus 1% of rentals from tenants. On the basis of the 1960 rent roll, this would have come to $40,000. The rent drops to $850,000, plus 1% for rentals, for two renewal periods.

First Union Realty, formed by New York's Harriman Ripley & Co., Inc., and Cleveland's Hayden, Miller & Co., investment bankers, raised $12.2-million in a stock underwriting and borrowed $13.5-million from Aetna Life Insurance Co.—at a relatively low 5⅜% rate—to make the purchase.

To qualify as a trust, First Union intends to pay out at least 90% of its ordinary taxable income; after debt services of $907,000 and other expenses, this could mean a distribution of 71¢ to shareholders on the basis of 12 months' operation. About 49¢ of this total would be tax-exempt because it would represent return of capital.

Bank sees unusual squeeze on profits damping hopes for a real boom

Just how much corporations will spend—and borrow—depends on the outlook for corporate profits, and New York's First National City Bank expresses disappointment over 1961's third-quarter figures. It says the profits squeeze is "on with a vengeance" and not only may mean a short-fall in tax revenues but also may dampen hopes for a rise in spending. **The third-quarter results, it says, are unusual because profits ordinarily do not feel a squeeze in the early stages of an expansion in economic activity.**

But, First National City notes, the first-half recovery in profit margins was reversed in the third quarter. Manufacturers' margins shrank from an average of 6.1¢ per sales dollar to 5.8¢, although nearly two out of three showed gains in earnings over 1960's third-quarter results. Over-all, the 791 companies reviewed had a combined net income of $2.9-billion in the July-September period, an increase of 8% from third-quarter, 1960—but an actual decline of 2% from the June quarter. This is not adjusted for seasonal factors but—while there is usually a decline in the third quarter—the bank suggests that "forces of business recovery" might have been expected to offset the seasonal pattern.

The survey shows that corporate profits through the third quarter are running 6% behind the 1960 level. Last year's fourth quarter was disappointing, and the prospect is that the 1961 figures will show a handsome increase. But it will take a widening of profit margins to assure a boom.

Corporate demand for outside financing drops from high first-half level

Although corporate demand for outside financing was extremely high in the first half, it has declined sharply since **and will probably continue at the lower level.** The reason, according to Salomon Bros. & Hutzler, a major New York investment banking firm, is that corporations are generating internal funds faster than they have use for them. In particular, depreciation reserves are rising at an accelerated pace. They are now running $5-billion to $7-billion a year higher than in the 1956-57 boom in capital spending.

As SB&H sees it, internal funds will amount to $34.1-billion in 1961, while total external financing is estimated at only $9.7-billion. Depreciation reserves came to $24.2-billion, and should go even higher next year. **This indicates that business is not dependent on a large volume of external financing if it wants to increase its capital spending.** The study predicts that next year may see "some congested months or quarters" because of large corporate issues, but that "the annual total should not turn out to be exceptionally big."

Survey of S&Ls shows stiffening of mortgage rates; no sharp rise seen

Mortgage rates appear to be stiffening. The Federal Home Loan Bank Board, which supervises the activities of federally backed savings and loan associations, says a sampling of 191 large S&Ls shows that they charged an average 6.05% on new home purchase mortgages in early October, compared with an average rate of 5.99% in the first 10 days of September.

The October increase marked a reversal—for the moment, anyway—of the downward drift of mortgage rates since the spring. But lenders are skeptical of any sharp increase in rates unless housing picks up steam—and from all reports there's no pep showing in new starts.

It's a store for only a few weeks of the special clearance sale. Stocks are all discontinued items, deemed unsuitable for discount operations, and they won't be replaced as they are exhausted. Target for completion of sale: about three weeks.

MARKETING

When the discounter moves in

Cleveland's Revco bought an old drug chain and found itself with inventory it didn't want —so it staged a clearance sale in a vacated store

Clevelanders are getting a vivid demonstration of the difference between the kinds of stock carried by a discounter and by a conventional retailer. And it is bargain time for them as an orthodox drug chain's inventory is slimmed down to the relatively few but fast-moving items to which its new owner, a discount chain, is willing to grant shelf-room.

The sale pictured on these pages is billed by Revco Discount Drug Centers as "a million-dollar liquidation sale." When Revco bought out Standard Drug Co., an old-line chain of 41 stores in northeastern Ohio, that was just about the value of the merchandise in Standard's inventory that Revco found unsuitable for discount operations.

With the acquisition of Standard-Drug in late June for $2-million, Revco (itself owned by Regal D. S., Inc., of Detroit) calls itself "America's only total discount drug chain." From its start with one store in Detroit in 1956, Revco had grown to 20

All new but a trifle outdated, some items have been around for years, as in the case of this special razor offer . . .

. . . and an ample supply of hula hoops. This second floor of the former department store is devoted mostly to toys.

Typical shopping basket is crammed with marked-down evaporated milk, detergents, cellulose sponges, while . . .

. . . farther up the price scale, a customer challenges a clerk to prove that a pocket-size transistor radio really works.

stores in Michigan, Ohio, and West Virginia before the Standard acquisition. Standard, founded in Cleveland in 1899, hit a peak of 57 stores and still had 41 outlets ($10-million annual volume) at the time of sale.

In two months, Revco converted 39 of Standard's stores to discount operations, sold one store, and closed the other. Meanwhile, it analyzed Standard's inventory.

Deadwood. The conversion of stores to more open displays and to checkout operations was relatively easy. New shelves and display racks replaced the typical drug store furnishings of the old Standard stores, and the obsolete fixtures were sold. Assaying the inventory, however, required a judgment—almost an instinct—that is the essence of discount marketing.

A cardinal principle of discounters is to handle only the merchandise that turns over fast enough to produce a profit on a low margin. It must also sell itself. On either or both of these grounds, Revco earmarked for liquidation such varied wares as toys, magazines, tobacco, hardware, housewares, Christmas decorations, and all of the less popular sizes of packages of goods it intended to continue carrying.

Three bargain floors. From each of Standard's stores, Revco trucked the rejected goods to a vacant 10-story former department store in Cleveland, using the upper seven floors as a warehouse and laying out the sale of the building's first three floors.

Typical of the merchandise is the selection of razor blades. Revco found that certain packages of certain brands move fastest, and it is disposing of all the rest at clearance prices.

On one floor, all Standard's toy inventory is up for grabs—nearly a floorful, with the rest of the area taken by Christmas decorations. On the third floor, shoppers find bargains in bar soaps, laundry soaps, detergents, pet foods, floor waxes, cameras and film, automobile polishes, antifreeze, baby needs, and sports equipment.

It's all new, and only a few items (hula hoops, among them) are outdated. It's displayed as though the store were going to be there for a long time, but Revco expects the sale to last only three weeks or so. And when the present sale stock is gone, there won't be any more.

Tenets of business. As any successful discounter must be, Pres. Bernard Shulman of Revco and Regal is a student of the percentage of return on capital invested.

In his days as a conventional druggist, he noted that the return was low on such diverse activities as jerking sodas, selling cigarettes, and checking up on employees. At one of the Standard stores Revco acquired—in what would appear to be an ideal location, on the ground floor of a major downtown office building—Shulman found without surprise that the lunch counter produced much less profit at as high a volume as the drug department. This was the location that Revco closed.

With self-service, the only employees left in the Standard stores are the pharmacists, stationed near the checkout counters; the stock clerks, and the checkout clerks. Revco is putting Standard's ancient five-story office and warehouse up for sale (rolltop desks were still in general use, Revco found), with warehousing now centralized in Detroit. Revco uses part of the old Packard auto factory for warehouse and office space. It's a one-floor operation, with conveyer belts.

Revco uses a computer to determine which items move fast enough to satisfy specifications for return on invested capital, and also to help decide prices. The company says prices are determined by the rate of turnover and its cost, rather than by any set discount from the manufacturers' list prices.

Not wholly welcome. In moving into the Cleveland market as heavily as it has, Revco has stirred up some resentment among conventional retailers, has attracted attention from the Better Business Bureau, and has been embroiled in law suits involving Ohio's "fair trade" laws.

Revco advertises comparative prices, and the Better Business Bureau has been looking into this practice. The chain contends that, at one time or another, every retailer in Cleveland has used this type of advertising. It says it has offered to drop the practice if the Better Business Bureau can get all other retailers to stop it, too.

When Ohio's price-enforcement law was enacted in 1959, Regal's subsidiary in Cleveland at that time, Hudson Distributors, Inc., filed suit against Upjohn Co. and Eli Lilly & Co., which had served notice on Hudson of their intention to enforce posted drug prices.

Early in 1960, a judge of the Common Pleas Court declared fair trade unconstitutional, but that decision was reversed last summer by the Appeals Court in a 2-1 decision. Shulman says the case will be carried to the Ohio Supreme Court, and beyond that, if necessary. **End**

In marketing

BW

Trading stamp company threatens to sue bank that swaps them for a fee

What can a housewife who collects blue trading stamps do with a bunch of green stamps?

An answer came up recently when Theodore Berkeley, of Utica, N. Y., set up an exchange center, called the National Stamp Bank. But he immediately ran into trouble when Sperry & Hutchinson Co. threatened to take legal action against the bank this week.

The "bank" offers to exchange unwanted stamps for the type the consumer collects at a fee of 10¢ per 60 stamps. Berkeley claims that $500-million worth of trading stamps were not redeemed last year.

A spokesman for Sperry & Hutchinson says the company never relinquishes ownership of the stamps to anyone, and the National Stamp Bank has no right to make such exchanges. He added that previous attempts to set up similar exchanges had been stopped either by warnings from the stamp companies involved or by court order.

The S&H spokesman says that Berkeley's estimate of $500-million worth of unredeemed stamps approaches the total stamps in the entire industry, which he estimates to be valued at about $700-million.

FTC examiner orders Mary Carter to discontinue ads offering two cans of paint for price of one

In a continuing crackdown on advertising claims, a Federal Trade Commission examiner ruled it is misleading for Mary Carter Paint Co., Tampa, Fla., to advertise two cans of paint for the price of one.

Examiner Herman Tocker ordered the company to stop representing that any of its merchandise is "being given free or as a gift" and to stop indicating that its retail prices are usual for such merchandise.

Tocker based his ruling primarily on his finding that Mary Carter ads overstressed the idea of a "free" can of paint and were not sufficiently clear in informing potential buyers that they had to purchase one can to get a "free" one. In various ads, he said, "the word 'free' invariably jumps out from the ad because it is in larger letters, bolder type or more strategically placed than the words of qualification."

These ads, he decided, run afoul of FTC policy that requires that all conditions of sale be "clearly and conspicuously explained."

The ruling is not final and may be reviewed by the commission.

Armour asks court to delay action by Agriculture Dept. on "watered" hams

In the running controversy over "watered" hams, Armour & Co. went to court this week to ask that the Secretary of Agriculture be restrained from issuing **new regulations that would forbid interstate shipment of these hams.**

The Agriculture Dept. has said that effective Nov. 17, federal inspectors will not approve hams that have been pickled with a solution of salt and other chemicals. This order reverses an order issued last year by former Secy. Ezra Taft Benson.

Board Chmn. William Wood Prince of Armour claimed that consumer surveys indicate preference for ham containing 10% more moisture than the usual ham. **He claimed that "watered" ham whose weight had been boosted 10% in the pickling process generally sold for 10% less than the "nonwatered" kind.**

All-out war for tin can market

Reynolds Metals will start making aluminum cans in its own plant next month

Aluminum may fill up to 80% of this year's needs for frozen citrus juice cans

Next targets are fish, meat, and beer—with a potential market of more than 10-billion cans annually

Reynolds Metals Co. early next month will be making finished aluminum cans on three high-speed can lines in a hastily assembled factory in Orlando, Fla. Reynolds' move is a radical one—it's almost as though a big steel company had decided to make automobile bodies.

The can companies, particularly Crown Cork & Seal Co., Inc., American Can Co., and Continental Can Co., Inc.—all with large can plants in Florida—most emphatically don't like this kind of aluminum invasion. Continental Can's vice-president of marketing, Raymond G. Fisher, for example, calls Reynolds' action "an unnecessary intrusion" into can making.

Headway. By competing directly with its can company customers, Reynolds is making clear how determined it is to increase aluminum's already considerable penetration of the market for frozen citrus juice cans. Last year, the first season aluminum cans made any headway, aluminum went into 60% of the cans used for packing frozen orange juice. Aluminum suppliers—Reynolds in particular—would like to see aluminum's share go to 100%.

Long-range goals. Reynolds and other aluminum companies are not limiting their ambition to the citrus can market, either. They are going after solid-packed meat and fish, and getting ready for a major offensive in the big and rich beer can market.

Aluminum companies for several years have been foraging for new outlets for their product. Faced with overcapacity, they badly needed a major market on a commodity basis, such as a piece of the tin can business, or a share of automobile engine blocks. To get into these markets meant displacing steel.

Foot in the door. Aluminum got its foot in the door through the frozen citrus juice packing industry, where it was directly responsible for a $4-per-thousand reduction in can prices that will save packers from $3-million to $4-million this year.

As a starter, the aluminum companies looked for a can in which steel held the least competitive advantage. Motor oil and beer cans looked promising, but the 6-oz. frozen juice can had several advantages:

- It doesn't have to be particularly strong. There is no pressure or vacuum problem. And since the can uses an adhesive-bonded side seam, it is easily converted to aluminum.
- Aluminum's corrosion resistance would be valuable, since frozen juice cans are often wet.
- The citrus pack is handled close to the fruit source, so the product has to be shipped all over the country. Aluminum's lighter weight figured to save an average of nearly 70¢ per 1,000 cans in shipping alone.

First fizzle. Several years ago, the aluminum companies approached the can companies. But they also started a promotion campaign aimed at food chains and packers. One marketing manager of a can company told Business Week: "They started making all sorts of claims for aluminum cans that we—not they—were expected to back up. We always have and always will make cans of any material our customers want, but we don't like the idea of our materials suppliers telling us what to do."

The net result, according to a Reynolds' executive, was that aluminum went into the can companies' research labs and stayed there. "It didn't sell one can," he claims.

In late 1959, Aluminum Co. of America cut the per-can price of aluminum can stock below that of 75-lb. tinplate. But the can companies, because of manufacturing conversion expenses, maintained an 80¢-per-1,000 premium on aluminum cans. The cans were used only on a sampling basis, so 98% of the 1959-60 season's frozen concentrate pack went into tinplate cans.

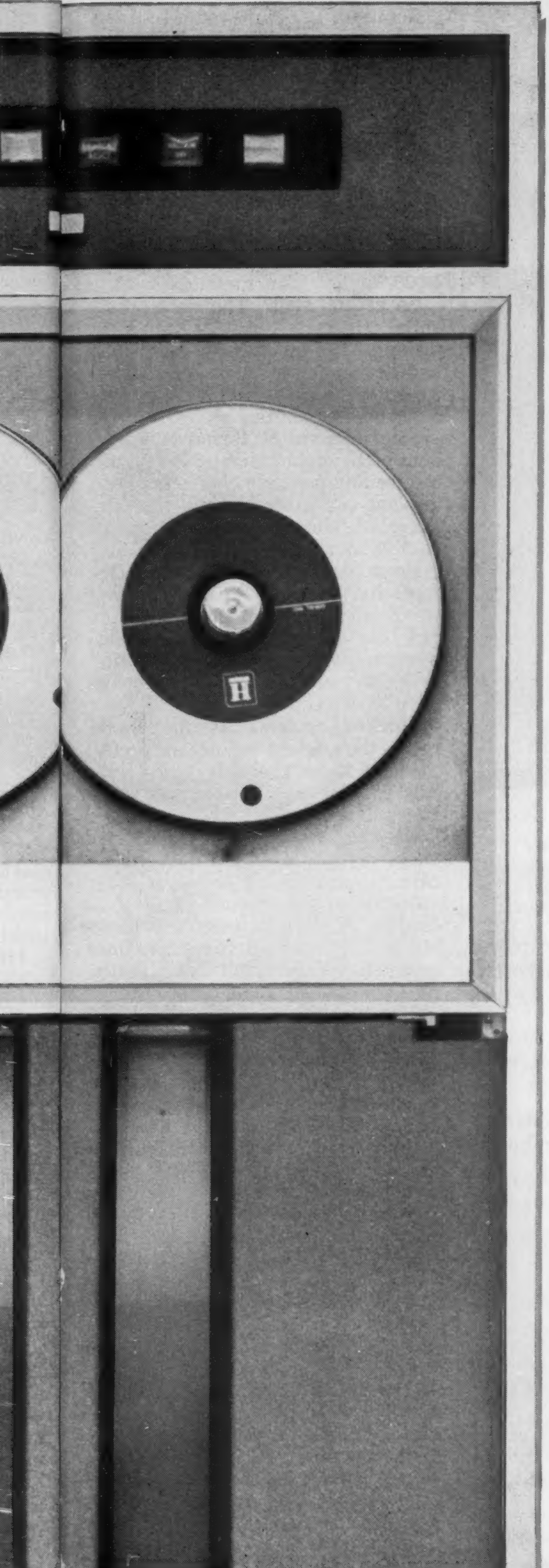
Speedup. Reynolds felt that the canmakers were freezing aluminum out. So, in January, 1960, Reynolds went into action, and things began to happen:

- Reynolds put a can line from its packaging lab in Richmond on a truck trailer and drove it down to the Minute Maid Corp. plant in Florida City. There, backed up to the receiving dock, the can line turned out 7-million cans in three weeks. Minute Maid liked the idea so much it leased the can line and installed it permanently.
- Minute Maid's move toward in-plant canmaking apparently scared the canmakers. In April, 1960, Continental Can Co., Inc., slashed the price of aluminum cans by $2 per 1,000, making them $1.50 per 1,000 cheaper than tinplate. The price cut didn't discourage some packers from installing their own canmaking equipment, however.
- Minute Maid ordered a second can line; then Winter Garden Citrus Products Cooperative and Birds Eye Div. of General Foods Corp. installed can lines. The total capacity of these lines is about 400-million cans, or a third of the pack.

The in-plant line gives packers a powerful club over the canmakers, and, according to one can company, involves little risk because "the packers have an agreement with Reynolds that protects them from machinery obsolescence—they can turn back the canmaking equipment any time they want to."

Rumble from steel. Late in 1960 came a rumble from the mighty steel industry: The aluminum companies might not have it so easy after all. U. S. Steel Corp. announced that a new double-reduced thin tinplate would be available in commercial quantities.

It was too late for last year's pack,



but tinplate prices for this season, announced last June, enabled the can companies to offer tinplate cans for less than aluminum. However, Alcoa once again cut the price of aluminum stock to make it competitive with the thin tinplate. Reynolds and other aluminum suppliers followed suit.

According to the can companies, the price cut wasn't enough to make aluminum cans fully competitive, so they priced aluminum cans 39¢ per 1,000, higher than tinplate.

"A natural step." The price differential triggered Reynolds into canmaking. "We felt the can companies had declared war on us because we supported in-plant canmaking," says a Reynolds executive.

Says Richard S. Reynolds, president of Reynolds Metals: "We want to give any packer a choice between in-plant can assembly and the purchase of aluminum cans from an outside source at competitive levels."

Reynolds priced its cans exactly the same as tinplate cans, and this week all three major canmakers met the Reynolds' price for alumimum cans. "We don't like it," says one can manufacturer, "but we have to meet the going price."

Sideline rooters. As the battle rages, the packers are sitting pretty. Most of them probably agree with Ansley Watson, sales manager for Pasco Packing Co., which packs a large volume of private labels for chain stores. "We want this competition to continue," he says. "Our industry and customers will gain from it." Watson believes that packers have "benefited from container research we wouldn't have gotten for three or four years otherwise."

Most packers see both advantages and drawbacks in the aluminum can. Robert W. Mairs, executive vice-president of Winter Garden Citrus Products Cooperative, which has installed its own in-plant assembly lines, sums up the advantages: Aluminum cans' lighter weight saves up to $250 per carload on freight; they eliminate rust; and they make a brighter, better-looking can.

At the same time, some packers have found aluminum cans harder to handle within their plants.

50-50 market. While aluminum has made great inroads, packers do not believe the battle is over. The lighter-weight tinplate, now selling competitively with aluminum, is presenting a more serious challenge than aluminum faced last season. Some packers—such as Minute Maid, Birds Eye, Winter Garden—will use aluminum in all their cans. But Pasco is using the lighter tinplate entirely. Other packers will be

deciding soon. Although the aluminum companies are predicting that 80% to 90% of this year's pack will go into aluminum cans, one packer guesses that the two metals will divide the market this year.

The price cuts in citrus concentrate cans have not been lost on other canners, and point up the wider implications of the battle for the citrus can market. What is happening in citrus offers clues to future events in other fields.

Beer is next. There is no doubt that the aluminum companies will be out after the beer can business.

Reynolds probably will try to turn the same trick in beer that seems to be working so well for it in citrus. But to do it, Reynolds has to figure out a way to make beer cans at a price competitive with tinplate. A beer can is harder to make in aluminum than in tinplate because aluminum can't be soldered, and adhesive joints aren't strong enough to withstand the pressure. There are three promising ways to make aluminum beer cans: Use a welded seam or make a one-piece can by drawing or by impact extrusion.

Reynolds recently bought a Thermatool welder—an electronic machine capable of welding aluminum can stock fast enough to turn out 2,000 or more cans per minute.

American Can and Continental both have been working with Thermatool welders, and American Can last month demonstrated a can bodymaker capable of turning out 2,000 welded seam cans per minute. National Can Corp. last week ordered a Thermatool welding head for its research group.

New developments. Electronic welders work with both tinplate and aluminum, but it is aluminum that is pushing the development effort.

Already, several breweries are using the easy-open can, which has an aluminum top and a tinplate body. Coors brewery in Denver has been making aluminum cans by impact extrusion for some time, and Victor Metal Products Corp. has offered to lease extrusion machines to breweries to make aluminum cans.

In St. Louis, Anheuser-Busch, Inc., is working with a new company, Aluminum Container Corp., which will use equipment designed by a Coors engineer.

The beer market undoubtedly will be much harder to crack than the citrus packers. But it's worth the big effort. The citrus pack uses only about 1½-billion 6-oz. cans and about 200-million 12-oz cans. Beer, on the other hand, gets guzzled out of a cool 9-billion 12-oz. cans a year. **End**

International outlook BW

November 11, 1961

Officials worry about effects of freeing trade

Now that the Administration has decided to meet the expanding European Common Market with a drastic liberalization of U. S. trade policy (page 27), some U. S. officials are worrying about the balance-of-payments implications.

The problem is to sort out the short-term and long-term effects of a move toward free trade in industrial products with Europe. And when you do, the short-term outlook is not too good.

Long-term, such a move could be expected to improve our over-all payments position. The key to a healthy payments balance is the competitiveness of U. S. products in world markets. And U. S. industry would be forced to be more competitive if there were free trade with Europe.

Note, also, that European tariffs are higher on the average today than ours. This should give the U. S. some advantage if duties are to be scrapped on both sides. Moreover, there would be less incentive for U. S. industry to go after the European market by investing in production facilities there.

Short-term, though, a move toward industrial free trade could aggravate our balance-of-payments problem. Combined wage and managerial costs in the U. S. are roughly double those in Europe for a wide range of industrial production. What's more, European tariffs are not higher than ours in every case. For most textiles, many chemicals, and a number of other items, American tariffs are substantially higher. So these U. S. industries would face a rough time.

U. S. may have to go slow on cutting tariff

Some Washington officials argue, for these reasons, that the U. S. will be forced to take a more selective approach to freeing industrial trade on a worldwide basis than the Europeans are taking within their own area. **Also, our timetable may have to be slower, and we may have to provide substantial government assistance to injured domestic industries.** In fact, a sharp argument is under way within the Administration about the best timing for a showdown in Congress on new trade legislation.

Treasury Secy. Douglas Dillon and Under Secy. of State George Ball want to hold hearings on new legislation by next spring, but they don't want the President to fix a rigid deadline for passage.

Washington hopes West Germans can stand firm

Washington officials are waiting eagerly for Chancellor Adenauer's visit on Nov. 20. Many of them are frankly uneasy about West Germany's future policy in the Berlin crisis.

The new coalition government is the weakest since the war. And weak governments generally find it difficult to make the bold policy changes sometimes required in crisis situations. Adenauer's visit will give Washington a chance to size things up.

While Adenauer was reelected chancellor by the Bundestag this week, he returns to office with his personal power and prestige severely diminished. And the coalition he heads—between his Christian Democrats and the Free Democrats—already is racked with divisive forces.

Without an absolute parliamentary majority, Adenauer has been forced to make one concession after another to the Free Democrats. He has agreed to

step down before the end of his four-year term (thus becoming a lame-duck chancellor). He has sacrificed his foreign minister, Heinrich von Brentano, to meet Free Democrat demands that former Interior Minister Gerhard Schroeder should have that job.

Free Democrats will have a say on foreign affairs

The dumping of Brentano for Schroeder in itself doesn't signify a major shift in Bonn foreign policy. Like Brentano, Schroeder is a loyal Adenauer man. **But the fact the Free Democrats could force Adenauer to reject a trusted lieutenant suggests the influence the Free Democrats may have in foreign affairs.** And this party in the past has set Germany's reunification as its chief goal, even suggesting that a reunited Germany play an independent role between East and West.

Army takes over in Ecuador

Ecuador at midweek was in the throes of a political upheaval. **Pres. Jose M. Velasco Ibarra was forced out of office and the army took over,** installing Camilo Gallegoes Toledo, Chief of the Supreme Court, as interim president.

In opposition is Vice-Pres. Carlos H. Arosmena, who visited Moscow last summer and is now being ardently wooed by Castro supporters in Ecuador. He had proclaimed himself legal president, and is being supported by the leftists and some military dissidents.

Unpopular economic measures plus loss of leftist support led to Velasco's departure. Arosmena tried to take over but found himself unacceptable to the army. At midweek, however, there were indications that the army might back off and allow Arosmena to assume office, with a coalition government to keep him in check.

U. N. finally chooses Burmese for top post

The U.N. this week came through its most immediate crisis by naming U Thant—permanent delegate from Burma—as Acting Secretary General. Along with a group of Under Secretaries, he will fill out Dag Hammarskjold's term, which expires in April, 1963.

U Thant's election is the result of a compromise between the U.S. and the U.S.S.R. The U.S. wanted a single Secretary General, in the tradition of Trygve Lie and Dag Hammarskjold. The Russians wanted a triumvirate of Western, Communist, and neutral representatives—each with a veto.

The two major powers settled on Thant and a group of advisers that he will name as Under Secretaries General. Although they will be picked on a geographic basis, this arrangement in fact introduces the principle of political representation into the Secretariat. Heretofore, the Secretariat had been staffed, in theory, with an impartial international civil service.

Will he have any power?

At midweek, Thant had not revealed who the Under Secretaries would be, other than Ralph Bunche. The others will come from Africa, Latin America, and possibly Asia, Western Europe, and Eastern Europe.

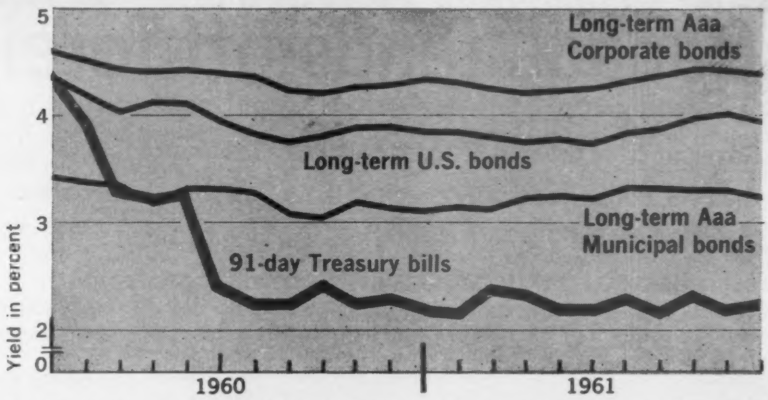
Thant's working relationship with the group is also vague. He refers to them as "principal advisers," with whom he will work in "close collaboration and consultation in a spirit of mutual understanding." Each Under Secretary, however, will probably be the spokesman for a powerful lobby trying to guide the Secretary General's actions along lines it favors.

Thant will face his first test in office next week when the Security Council convenes to review U.N. policy in the Congo. Thant will ask for a mandate to help resolve the increasingly difficult situation there.

Turndown ahead for bonds?

Many market experts think prices are about to decline after long stability

Stability in the bond market . . .



Data: Board of Governors, Federal Reserve System, Moody's Investors Service ©Business Week

Is the extraordinary stability in money rates (chart) coming to an end? You can't see it in any dramatic price movements—prices have hardly moved at all. But portfolio managers at some of the nation's largest banks are starting to trim their sails for what they consider an imminent decline in bond prices and a rise in yields.

For five weeks running, the weekly average of the banking system's free reserves—which is regarded as the best indicator of Federal Reserve policy [BW Jul.22'61,p80]—has been below $500-million. The change from September's average of $550-million is relatively small, and the money market is still easy. But institutional investors think the drop in free reserves may indicate a shift toward tighter money.

Problem of timing. Ever since the economy began its recovery some bond men have been expecting the Fed to tighten credit and bring about a bear market in bonds. So, in a sense, they are still sticking to this line despite the fact that the Fed has continued to pursue an easy money policy. They are betting that sooner or later the Fed will change its course.

There's no doubt that the Fed will shift some day. But in the money market, timing is all important, and the slight drop in free reserves is hardly a sign that a definite shift is in the making. This means that there is a good chance that the market is making a mistake in thinking that there will be a move away from stability now.

In trying to assess the market, investors have to take into account a number of new factors. On one hand, the deficit in the U. S. balance of payments is an important influence on Fed policy. On the other hand, fiscal policy is now taking some of the burden that monetary management formerly carried on its own.

Balancing act. This is obvious from the balancing act that the Administration—and the Fed—have been engaged in for the past year. The aim has been to drop yields in the long-term market to stimulate the economy while keeping short-term rates high enough to prevent an outflow of funds that might endanger the dollar. The Fed directly supported the long-term market (by buying long-term bonds) for the first time since 1951—when pegging of government bond prices ended. At the same time, it put pressure on the Treasury bill market to keep rates in a narrow range between 2¼% to 2½%.

But both the Fed and the Treasury have made it clear that their "Operation Nudge"—which by now has all but disappeared as a market force —is not and never was intended to be a return to pegged bond prices, despite a feeling on the part of a good many bond dealers that the Fed is in the long-term market to stay.

Technical strength. Whatever happens, the market's technical position is strong right now. The Treasury this week successfully completed its last major financing operation until February (page 143), and is publicly predicting that it will not have to tap the market for new money until after June, 1962. Moreover, corporate demand for capital has been relatively slack in recent weeks. Corporate bonds scheduled for sale between now and the end of the year total less than $250-million, about a normal two-week supply.

Tax-exempt muncipal bonds have been coming to market in substantially greater quantity—the visible supply of municipals scheduled for sale in the next 30 days is well over $500-million. But demand has been strong and the market has absorbed new tax exempts well.

Gold losses. There's also the fact that U. S. gold losses have been mounting as funds have flowed into London, where interest rates are higher. The British have cut their bank rate twice to help equalize the situation, but an increase in money rates in New York—where 91-day bills yield about 2.3%, against over 5% in London—would help balance short-term capital flows.

Wayne Hummer & Co., a Chicago bond house, says flatly that "the most important immediate determinant of policy is the potentially critical international financial situation and the world position of the dollar. Coming developments could very rapidly require a higher level of short-term rates. . . ."

But the view that money rates are bound to go higher is far from unanimous among professional bond men. Some, such as Herbert B. Jones of New York Hanseatic Corp., feel that high U. S. unemployment and a faltering business recovery indicate continued credit ease.

The sharp disagreement between Hummer and Jones underlines the conflict between national and international considerations that the Fed has been facing all year. But one thing is clear: The old rules of the game that prevailed in the Eisenhower era—when a business upturn automatically meant tight money—no longer hold. International factors are playing an increasing role in domestic credit policy, so you can't simply make a pat judgment on the U. S. economy and then tell what bond prices will do. **End**

Canada fends off foreign funds

Government's drive to keep its dollar at a discount to the U. S. dollar has finally checked the inflow, but the problem is not solved yet. Foreign capital still is trying to get in

Canada's bold new economic program is barely four months old [BW Jul.8'61,p29], but it's already running into trouble.

The Canadian government's idea was to push the dollar to a discount from the U. S. dollar, thereby stimulating trade expansion and giving the domestic economy a lift. Yet in the past month there has been a heavy inflow of funds that threatens to wipe out the discount and throw the whole program off stride.

More than $100-million of foreign funds, most of it from the U. S., moved into Canada last month. The inflow has now stopped and government officials insist they are not worried by the situation. But the inflow did put the Canadian dollar under pressure, and a renewal could make it hard to keep the Canadian dollar as low as the government wants.

The difficulties began in late September when the discount seemed to stabilize around 3%. Investors, who had been waiting to see where it would settle, started moving money to Canada. The battle to keep the Canadian dollar below par was fought throughout the following month, but only the direct intervention of the Bank of Canada—Canada's central bank—saved the discount. The climax came Oct. 27, when the bank spent an estimated $50-million, buying up U. S. dollars that were flowing in, threatening to push up the price of Canadian dollars.

Fleming statement. The bank's quick action and a statement from Finance Minister Donald M. Fleming that the discount might be driven even lower cooled off the exchange market. By Nov. 3, in fact, the discount had eased to 3¼%.

The "crisis" of Oct. 27 was linked directly to an unusual event not likely to be repeated—erroneous press reports that the government intended to let the dollar float back to par. But the "crisis" underlined a continuing problem. Foreigners want to invest in Canada, despite efforts of the government to discourage them. And these outside funds tend to wipe out the discount on Canadian dollars on which the success of the new economic program depends.

The government's biggest weapon against foreign money is psychological—so long as investors don't know how low the Canadian dollar will go, they think twice before putting money into it. The International Monetary Fund would like Canada to establish a fixed discount, but the Canadian government is resisting such a move because it would make it harder to keep investors guessing.

Alternative. The alternative to an "open mouth" policy—buying up U. S. dollars moving into Canada—was used last month to save the discount, but it's expensive and can be inflationary. During October, Canadian government holdings of U. S. dollars jumped $187-million.

Spending on this scale can't go on indefinitely. The government, which supplied the money from its Exchange Stabilization Fund, was apparently caught short. On Nov. 2, it borrowed $45-million from the Bank of Canada—which, in turn, borrowed from commercial banks. The loan will be repaid as soon as revenues roll in from a regular issue of savings bonds. The bank could have supplied the money itself, but such a move would obviously have been highly inflationary because it would have increased commercial bank reserves.

Government officials insist the big inflow of foreign money last month was merely the result of a "piling up" of ordinary trade transactions, perhaps for several months, as businessmen waited to see where the discount would settle.

Optimism. These officials expect no difficulty in holding the dollar at a discount, despite the upward pressure from outside funds. They explain that on balance the economic program has been working well—reducing unemployment, stimulating internal financing of Canadian industry, and giving a badly needed boost to exports. These factors all help to hold the discount, officials argue.

In addition, the government has insisted all along that it had no intention of trying to stop all foreign money from entering the country. It doesn't want American capital flowing in simply to buy up Canadian companies. And it wants to discourage "hot money," which swishes from one country to another, wherever interest rates are highest. But the government recognizes that development capital is still needed. For instance, British Columbia will require more than $600-million for its Peace River power project, and much of this money will have to come from outside Canada.

Thus, the government concedes there may be occasional "stress and strains" in holding the discount—as there was in October. But officials contend that things are now working in their favor.

There is widespread support, from major political parties and the business community, for the discounted dollar. This factor is counted on to limit imports by raising their prices locally and to increase exports by lowering the price of Canadian goods on world markets. These developments, in turn, would ease the nation's balance-of-payments deficit and stimulate domestic production. Most businessmen endorse these objectives and say the government will have no real trouble holding the Canadian dollar at a discount to the U. S. dollar.

However, a few money market specialists disagree. They also favor the discounted dollar, but they say the heavy inflow of funds last month was not primarily due to trade transactions—as claimed by the government—but rather was the result of Canada's relatively high interest rates. Lower rates are an important part of the economic program and the government has hammered down rates since last summer. But they continue to be well above those in the U. S. And some money market specialists are openly critical of the government for not driving interest rates below U. S. levels. Until rates are pushed lower, they say, foreign money will continue to move into Canada. **End**

First anniversary report on world's first jet-powered gas turbine

The Cooper-Bessemer RT-248 gas turbine shown below started operation on October 31, 1960, at Columbia Gulf Transmission's Clementsville (Kentucky) compressor station of the Columbia Gas System. Here's what it proved after the first year in service:

• Unparalleled overall economy of operation, as expected. • Exceptional reliability and availability, proven by 6500 hours of heavy-duty service with average load in excess of its 10,500 hp rating. • Simplicity and ease of control. Since June 20 has operated remotely from Nashville. • High efficiency (25%) without costly, bulky regeneration equipment. • Lower overhaul and downtime expense than with other comparable prime movers. Unit exchange concept with factory reconditioning of "jet" simplifies maintenance.

The RT-248 is a joint development of Cooper-Bessemer and Pratt & Whitney Aircraft. For further information on this and other C-B gas turbines, from 340 to 15,000 bhp, for all power applications, contact our nearest office.

R. L. Boyer, Vice President of Advanced Planning, and W. B. Boyum, Manager of Gas Turbine Sales, The Cooper-Bessemer Corporation, report on RT-248's first anniversary . . .

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ENGINES: GAS · DIESEL · DUAL-FUEL
JET-POWERED GAS TURBINES

Wall St. talks . . .

about SBICs' consultant activities, short-term flow to London, General Dynamics

Small business investment companies may be forced to divest themselves of their management consultant activities. The Small Business Administration feels that some SBIC sponsors are using these services to obtain inordinately large fees from the companies in which they have investments. Phil D. Fine, Deputy SBA Administrator, has put the issue squarely to SBIC operators: Cut fees or face the possibility of a divestiture order.

Despite the cut in the British bank rate last week, **short-term money is still flowing into London.** Bankers cite two reasons: First, interest rates in London are still slightly higher than in New York, even with the cost of covering the foreign exchange risk; and yields on some British government guaranteed obligations are 1% higher than comparable U. S. issues. Second, the London money market expects another drop in the bank rate within three months—this time to 5%, which would be bullish for fixed-income obligations.

General Dynamics Corp. may not yet be out of the woods in its struggle to develop its 990 commercial jet. Brokers say that GD will report about $15-million in net income for the third quarter, but that this entire amount will be set aside as a reserve against possible losses on the 990. More writeoffs, they say, are due at yearend. To meet the cash drain caused by these losses, GD may consider selling off: (1) a 40% interest in its Canadair, Ltd., subsidiary, and (2) part or all of its Liquid Carbonic Div.

A sharp rise in **First Mortgage Investors**—up close to $20 from its offering price of $15 six weeks ago—has touched off talk among underwriters that other, similar issues may be on the way. First Mortgage was the first real estate investment trust formed to specialize in mortgages. It's attracting speculative interest because of the high-yielding construction loans (many with rates of well over 10%) that eventually will make up half of its portfolio.

In the markets

BW

Market makes dramatic advance as dividend boosts inject fresh steam

The stock market broke out of its doldrums this week with a dramatic upward surge in stock prices. Investors bid up prices on Monday, before the market closed down for Election Day, then came back in earnest on Wednesday, **hiking the Dow-Jones index to over 723—just a fraction below the all-time peak.**

Brokers say that General Motors' declaration of a 50¢ extra—and increases in dividend payouts by Boeing and Brunswick—triggered the renewed demand for equities. **The dividend actions were interpreted as a sign that the Administration's defense spending is boosting profits,** and that the lull afflicting the economy will give way to a fresh advance. But one observer noted that the market was due to make a move and "the GM extra gave it the excuse to go on a tear on the upside."

While volume increased markedly, buying was not nearly so speculative as earlier in the year. In fact, many brokers say **the demand is mostly for the quality issues that institutional funds have been favoring.**

The election results seemed to have little influence on investors. Actually, the market began rising in advance of the election and broke out strongly afterward because demand was building up.

Now that confidence has returned, the prospect is for a new assault on the peak. But because investors are exhibiting greater selectivity, the rise will probably be slower than it was earlier in the year.

Investors bid up shares of discounters despite warnings issued by analysts

Investor interest in discount store operations shows few signs of fading. In some cases, price-earnings ratios are being bid up to more than 30 times earnings. Many analysts feel this is a lot to pay for future earnings in what is already a very competitive field.

The public, though, doesn't seem to agree. For example, **Gamble-Skogmo, Inc., of Minneapolis rose to a new high—$35.50—on news it was entering the field** in a joint venture with Landau Stores, Inc., of New York, a privately held company that operates 14 discount stores in six states (annual sales: about $42-million). The 50-50 company will be called Clark-Gamble Corp.; company projections are that it will be operating about 100 stores by 1965.

Interstate Department Stores and Korvette also hit new highs. Interstate's decision to go it alone—without financial support from Montgomery Ward [BW Nov. 4'61,p69]—was viewed on Wall Street as a good sign. The company's stock has jumped 15 points since merger talks broke off to reach $45.40—more than double its 1961 low. And Korvette's sharply increased earnings, from $2.23 to $3.07 a share for the year ended July 30, pushed its stock to $95—more than three times its 1961 low.

Analysts are confident many discount operations will make good profit showings this year and next, but they're worried about the flood of new entries into the field. Sooner or later, they say, this competition will make itself felt. Besides, many companies now are going into food retailing in addition to their present lines, and this may hurt their profit margins.

Treasury scores resounding success with off beat $7-billion refunding

The Treasury scored a resounding success this week with an off beat but highly imaginative plan to refund $7-billion of maturing World War II bonds [BW Oct. 28'61,p109].

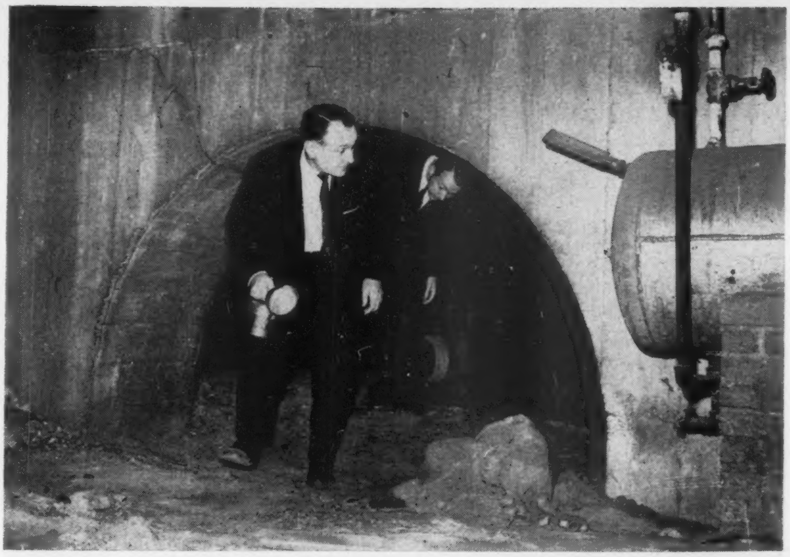
The combination concocted by Treasury Under Secy. Robert V. Roosa consisted of a four-part offering to investors. Holders of the maturing 2½s were given preemptive rights to swap their bonds for any one of three different issues: a 3¼% note due in February, 1963, which was offered at par; 3¾% bonds due in May, 1966 (some of which are already outstanding), priced to yield 3.81%; and 3⅞% bonds of November, 1947, priced to yield 3.97%. **In addition, the Treasury auctioned for cash an $800-million "strip" of bills—maturing weekly between Dec. 7 and Jan. 25—to replenish its cash balance should some investors decline the opportunity to make the swap.**

Bond dealers were enthusiastic about the way the Treasury handled the refunding. Aubrey G. Lanston & Co., Inc., for example, called it a "brilliantly conceived program." In general, dealers pointed out that the yields on the new issues were well over those available in the market. This should result in a maximum of debt lengthening, and at the same time should hold demands for cash to a minimum.

New York's mutual savings banks win permission to boost rate on deposits

The way was cleared this week for New York's giant mutual savings banks—which together hold some $22-billion in deposits—to increase the rate they pay for savings. For the past two years, the savings banks have been limited to 3½% on regular savings, plus an extra ¼% on money on deposit more than two years. Now, they will be permitted to pay 3¾% for regular money and any amount they can afford on two-year deposits. **Indications at midweek were that most of the New York mutuals would raise their regular rates to the 3¾% ceiling starting Jan. 1, and in addition would pay ¼% extra.**

State banking authorities approved the shift because the New York mutuals have been slowly but steadily losing ground to savings and loan associations, particularly the S&Ls on the West Coast that currently are paying 4½%.



Inspection team checks basement of Washington's Union Station. Action is part of new nationwide survey to identify fallout shelter-space in existing buildings.

GOVERNMENT

Kennedy takes middle line on civil defense

To avoid both hysteria and overconfidence, Administration is steering a compromise course. It will identify and stock public shelters, stress individual initiative on private ones

Out of the welter of official and public confusion over civil defense—to dig or not to dig—is emerging the Administration's formula for national survival. It is a compromise that recognizes the possibility of massive nuclear attack but avoids any semblance of a "crash" program.

As the formula now stands, the government will:

- Find, mark, and stock with supplies as many public fallout shelters as possible in existing buildings that can be converted to provide at least minimum shelter at minimum expense.
- Let individuals build private family shelters if they want to, but offer only mild encouragement.
- Accept the fact that an attack would wipe out the population of target areas like big cities and missile bases; aim for fallout protection for at least the quarter or half of the population who would escape blast, heat, and fire storm.

Compromise. If this leaves the public confused and dismayed, it is because Pres. Kennedy and his advisers have not really made up their minds on the probability of attack, what kind it might be, and the sort of shelter that would offer effective protection. Nor have they resolved the fundamental moral and psychological question of whether the nation should be alerted to prepare physically and mentally against massive obliteration.

They have compromised on a policy that emphasizes "the largest number of shelters in the quickest time at the least cost."

I. Public shelters

This week, a team of engineers began surveying downtown Washington for buildings that would make good fallout shelters—if standing. They found, for instance, that the basement of Union Station has walls 4 ft. thick and a concrete ceiling—excellent shelter for several hundred people.

A pilot survey in the industrial section of Baltimore located 22 factories or warehouses that would filter out 98% of the radiation for persons inside. In White Plains, N.Y., the business district was found to contain 108 buildings that, with only minor modifications, could screen out 90% or more of the radiation—with only minor modifications—enough to preserve life.

National survey. These three pilot studies are the beginning of a national shelter survey expected to turn up space for 50-million Americans. Some 700 architectural engineering firms are being hired to survey every community, and the survey is to be complete by December, 1962, at a cost of $93-million. Another $58.8-million has been appropriated to stock these shelters with five-day supplies of food and water, medical supplies, radiation detectors, and chemical toilets.

In addition to shelter surveys, some 935 prototype shelters costing $4.3-million over a two-year period are being built with federal funds to spur state and local efforts. Of these, 600 will be built in high schools by manual arts students, 79 will be community shelters, and 256 family types. Nearly 200 high school shelters have already been built.

One prototype shelter is being designed as part of a Seattle expressway project, with installation to be under an approach ramp. Pres. Kennedy has expressed interest in expanding this program, which makes efficient use of existing construction projects to add shelters at relatively low cost.

Bigger budget? Officials are now considering whether to expand the civil defense program next year, and there's talk of doubling or even tripling the present $306-million budget. In view of Pres. Kennedy's current drive to balance the fiscal 1963 budget, however, any substantial expansion appears unlikely.

If more money is spent, it would go mainly toward providing more shelters, more outdoor sirens, improvements in communications, and further development of the NEAR home warning system. NEAR is a project for mass-producing alarm devices that will plug into a wall outlet; they would be set off by increasing the current from 60 to 240 cycles at the generating plant.

Defense Secy. Robert S. McNamara estimates conservatively that in the event of an all-out attack the current program would save "at least 10-million to 15-million lives,"

A 100-megaton blast could produce fire storms 70 miles from ground zero . . .

Story on page 145

even if you admit that many of the shelters would be destroyed. All these figures are based, however, on pilot surveys conducted several years ago and with a great deal of guesswork on the kind of attack America might suffer. Thus, they may be almost meaningless.

Crucial knowledge. More to the point is another McNamara statement: "A megaton-yield weapon can destroy the heart of a city. But a near-miss, upwind, could also wipe out the city's population—unless the citizens know how to take advantage of the time following warning or the burst of a nuclear weapon in order to seek previously prepared fallout shelters."

The shelters marked out in areas that are within several miles of the detonation point (ground zero) would obviously be useless. Thus, it would seem futile to establish a shelter in an office building in, say, downtown Chicago. Steuart Pittman, Assistant Secretary of Defense in charge of the shelter program, disputes this, however:

"The bomb may miss the center of the city. Or it may land and not go off. Or the attack might be concentrated on military sites. We just don't know. What we do know is that we can protect a great many people against fallout, and that's what the program is aimed at."

Fire storms. The question of how effective shelters would be is further complicated by debate over the effects of a "fire storm." A report last week by Dr. Tom T. Stonier of the Rockefeller Institute, on behalf of the Scientists' Committee for Radiation Information, contends that fire storms would incinerate hundreds of thousands of persons in area urban fallout shelters.

A 100-megaton blast could produce fire storms 70 miles from ground zero. A fire storm occurs when a massive fire draws in air with the destructive force of a hurricane; flames intensify to blowtorch heat and combustion outruns the oxygen supply, causing suffocation or poisoning from carbon monoxide.

Defense Dept. officials believe that only a few American cities have the density of inflammable material necessary to feed a fire storm. They say that high winds would also

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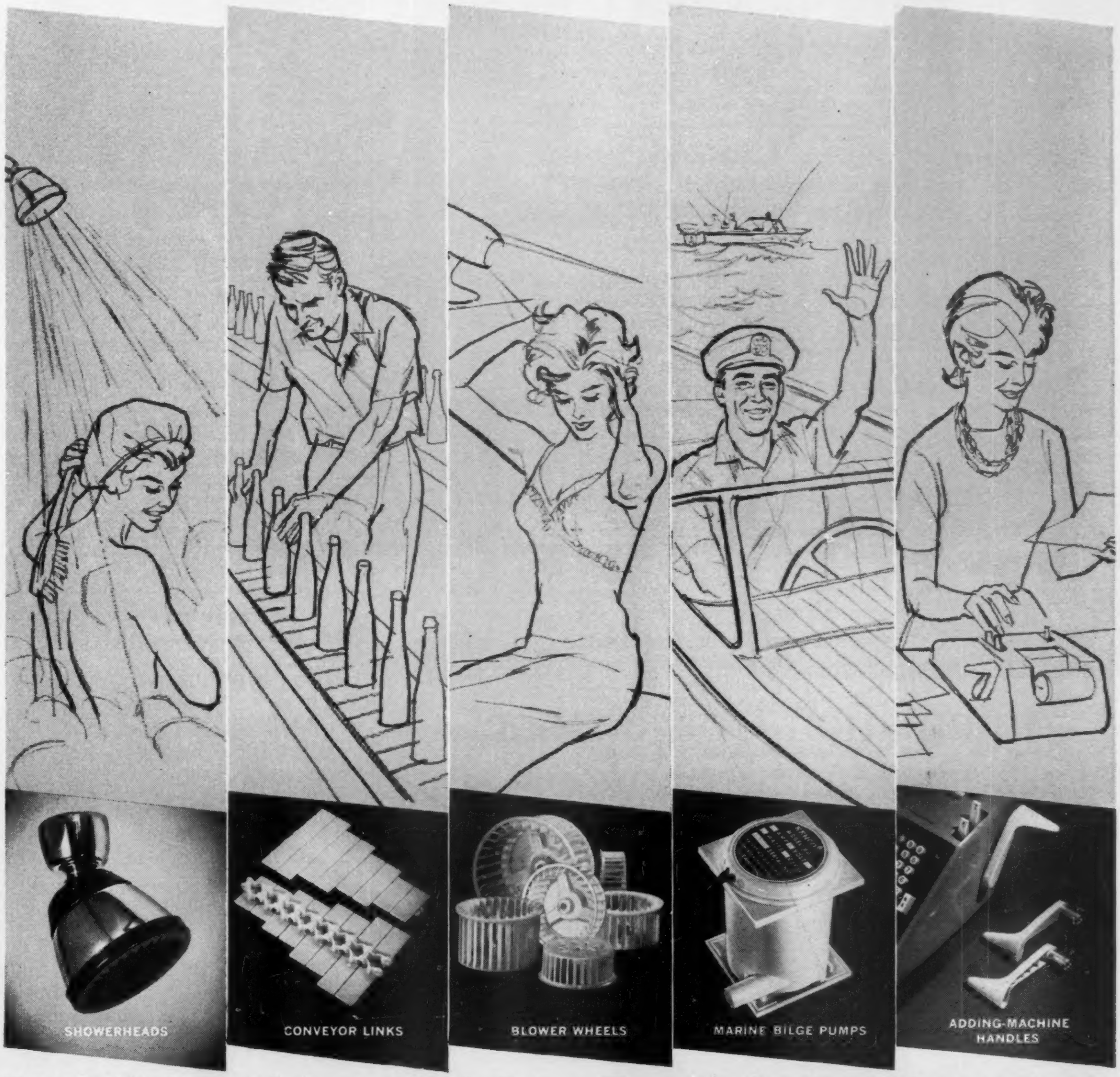

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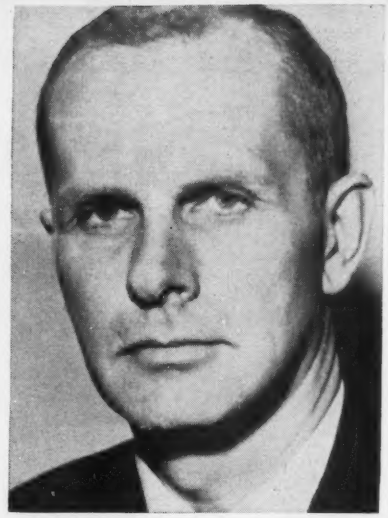

Steuart Pittman, Assistant Secretary of Defense, heads new shelter program.

have to be present to spread the fire.

However, experience with fire storms is too limited to provide any clear answers. The only two examples known are Hiroshima and a fire storm caused by an incendiary raid on Hamburg in 1943. In Hiroshima, half of the persons in a bank building only one-fifth of a mile from the blast survived; in Hamburg 60,000 persons died in the 14,000-degree heat.

II. To dig or not to dig

The President's attitude has left unanswered for most people the down-to-earth question of whether to build a shelter or not. He stirred up the pot—with some continuing help from Khrushchev—with his May 25 message to Congress. He argued that since mistakes or madness could plunge the nation into nuclear war, there is no alternative but to prepare.

Individual responsibility. Since then, in public statements and press conferences, Kennedy has been ambivalent. He has reemphasized the need, but has put it largely in terms of "individual responsibility" to provide for survival. The federal budget for civil defense—less than is spent on rural electrification—does not convey any real sense of urgency.

The President's attitude is that civil defense is a long-range proposition. Gambling that there is not going to be any war soon, he turns thumbs down on a crash program that would stir up hysteria, defeatism, or the opposite psychology of "We're prepared, let 'er rip."

Critics charge that he has stirred up anxiety without imparting a

Mr. President:

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A Civil Defense booklet will describe the nature of radioactivity

Story on page 145

sense of urgency. Everybody talks about shelters, but few actually build them.

Guide book. About Dec. 1 the Office of Civil Defense will print millions of copies of a booklet on defense against nuclear attack. It will describe the nature of radioactivity and the steps necessary for survival, including how to take cover during the blast and where to seek shelter from fallout.

The booklet will also contain building instructions and sketches of a variety of shelters ranging from 4-ft.-high metal pipes buried underground with appropriate entrances, to more elaborate concrete rooms in the basement. In addition, it will tell where more detailed information on the construction of shelters can be secured.

Civil defense officials are hoping to include in the booklet a letter from the President urging families to build shelters. So far the letter has not been forthcoming—evidence that there is official schizophrenia on the subject.

Influential tome. Official thinking on civil defense has been strongly influenced by the ideas of Herman Kahn, RAND Corp. expert and author of On Thermonuclear War. Kahn has helped make civil defense respectable by disputing the theory that a nuclear war would wipe out civilization.

A massive Soviet attack, he says, would wipe out half the population, but a reasonable program of fallout shelters could save the other half. And the world they would find upon crawling out of their holes would not be so hostile as sometimes assumed. Kahn believes the nation could recover, restore a viable economy, and rebuild the destroyed wealth "in less than a generation."

Kahn and others have also pushed another idea that has influenced the Administration's civil defense policy. This is the importance of civil defense as a deterrent to enemy attack. According to this theory, an adequate civil defense program makes our threat to retaliate in force if attacked more credible by showing we are psychologically prepared to face an atomic war. By the same token, it reduces the advantages an enemy might hope to gain by a surprise attack. **End**

Personal business BW

November 11, 1961

Colorado offers new attractions for winter

Whether you're looking for some action on fresh ski trails, or simply a crisp dry-cool place to relax, Colorado may well be the answer.

The state's wintertime resort facilities lately have been improved and expanded, for both skiers and fireside sportsmen. There are some first-rate new lodges. **And at least six ski areas will be open for the first this season.**

Where to find slopes and lodges

These new skiing resorts won't be fully developed in 1961-62. But you may find this to your liking—there should be more elbow room. And in any case, **most trails will be finished—with chair lifts.**

- **Peak Eight, at Breckenridge,** 70 miles west of Denver, will have six new ski trails open by Christmas. You might try Alpine Lodge, at the lift, or a plush new spot called Quandary Lodge, two miles away.
- **Indianhead Mountain** at Guanella Pass, off U.S. 285, has 3½ miles of trails ready—opening Christmas week.
- **Shadow Mountain,** 100 miles northwest of Denver, will have a new resort making its debut in February, complete with a 100-room lodge. Located close to Granby, it has the C Lazy U Ranch nearby, with complete winter resort facilities—including tobogganing.
- **Storm Mountain,** at well-known Steamboat Springs, has been made into a ski area to supplement Howelson Hill (fastest schuss slope since 1900). The Harbor Hotel, an old standby, is still the town's best. **Besides these developments, the two established ski areas nearest Denver boast comfortable new lodges, too**—Arapahoe Basin Lodge at Loveland Pass, and Miller's Idlewild and the Hochlandhof at Winter Park. The Red Ram, in nearby Georgetown, is an inn with a roaring fireplace atmosphere.

Old favorites still popular

Aspen, of course, is known for its alpine flavor.

The Aspen Meadows hotel deservedly requires booking well in advance **—its facilities, services, and setting are superior.** (The town, incidentally, has a patisserie shop, the Delice, as fine as any in the country.)

And the Broadmoor hotel-resort at Colorado Springs remains among the best anywhere. A new 144-room addition opens this month, with rooftop restaurant featuring a 360-degree vista of plains and mountains. The Broadmoor has its own ski area now, and golf all winter.

Note: Nearly all ski areas in Colorado offer ice skating, too; and in lakes below 7,000 ft., **you can fish through the ice for fresh water catches.**

Not all meat and potatoes

Good eating in Colorado leans pretty much on beefsteak and baked potatoes. But there are a few spots offering more exotic fare. The Copper Kettle in Aspen features food of a different county each day of the week. The Curry House, Colorado Springs, has a range of Indian dishes, if you're so inclined. In Denver, there's Trader Vic's; an elegant Japanese restaurant, the Fuji-en; and the Normandy serves superior French provincial food.

Denver, of course, would be your focal point for seeing Colorado. From there, you can pick up rail connections to some of the resort areas; and there's a spectacular daily flight between the mountain peaks to Aspen.

Since coping with snow is an old art in the state, the mountain highways are surprisingly clear in winter. And if you rent a car in Denver, it will be

Personal business Continued

fitted with snow tires. Note: **A flashing blue light on the side of the road means there is a snow plow ahead.**

Special events this winter: **Colorado-Air Force Academy football game,** Dec. 2, Boulder; **selection of U.S. ski-jump team,** Dec. 26 to Jan. 7, Steamboat Springs; **international professional ski competitions,** Feb. 9-11, Aspen; **world ice hockey championships,** Mar. 8-18, Denver and Broadmoor.

Major medical in an insurance package

A package insurance policy combining "major medical" with ordinary basic health coverage has appeared in recent months, in the individual-family field. The idea has been part of group plans for some years.

So far, at least three companies—**American Casualty, Metropolitan Life,** and **Washington National**—have announced this offering. Details vary considerably, but Metropolitan's plan gives you an idea:

Their "comprehensive medical expense" policy covers all illnesses or accidents, in and out of hospital, with benefits up to $15,000 over a five-year term—for each family member. Maximum amount payable in any one year is $7,500; but a "reinstatement" clause provides that if you use part of the benefit in one year, and can then prove total physical recovery, the maximum $7,500 limit for the year is restored—though the $15,000 over-all limit still applies.

Cost depends, of course, on ages and number of family members. **A man aged 50, with wife 45 and two teenagers, would pay about $285 a year.**

A limitation to this type of coverage is that, to qualify, you must drop other types of individual hospital and medical coverage.

Dividends add to life coverage

Meantime, an old idea—the use of life policy dividends to buy "paid-up additions"—*has been getting a lot more popular recently.*

You acquire more insurance coverage, but your present premium remains the same. **For example, say you bought a $100,000 straight life policy 10 years ago, at age 35.** Today, your dividends would be about $575 to $625 a year. This would buy additional paid-up insurance of $1,000 to $1,100.

The amount of coverage you could add each year would increase, until, at your 65th year, you would add around $2,000 to $2,200 in paid-up insurance. By that time, you would have upped your total coverage roughly $40,000. This might be well worth checking into, particularly if you're in a high tax bracket today.

Tax omnibus

Expenses and losses in raising bird dogs as a sideline business are tax deductible, even where the losses are substantial—but a Tax Court case warns that **the evidence must clearly show a business operation, not a hobby** . . . It's still uncertain whether you can deduct the **cost of board and lodging during a trip taken for medical reasons. Conflicting cases abound—** though the law specifically allows medical transportation costs . . . **Buying a country club's bond to become a member** may be, in some cases, subject to the 20% federal excise tax on initiation fees . . . **Water damage to your house** is not a deductible casualty loss, if you fail to show that a sudden event like a storm was responsible (slow seepage or "progressive deterioration" won't support a casualty deduction) . . . **When you deduct for a charitable contribution,** you can't take the value of a partial benefit received in return—as in the case of "benefit" theater tickets, where you pay the charity maybe $25 for a $9.60 seat.

New entry in crowded gun field

Sturm, Ruger made mark in handguns that appealed to sportsmen. Now: a rifle

Gun buyers rely on brand names so thoroughly that new gunmakers rarely crack the market in a big way. Yet two unknowns in their 20s broke into the handgun market in 1949, and the surviving partner is taking the company now into a still more challenging market with the introduction of a carbine.

William B. Ruger (picture) and Alexander Sturm seemed headed for failure 12 years ago when they formed Sturm, Ruger & Co., Inc., with one product: a .22 caliber automatic pistol that might have seemed a low-price ($37.50) imitation of the German Luger. The two men, with only $50,000 in capital, were going up against such competition as Colt and Smith & Wesson, Inc.

Sturm, Ruger never brought out a double-action service revolver of the type carried by police and the military, a market dominated by Smith & Wesson and Colt (Colt's Patent Firearms Mfg. Co., Inc., a wholly owned subsidiary of Fairbanks Whitney Corp.). But eventually its four lines of handguns, including single-action six-guns with a Wild West character, found a warm welcome among sportsmen, gun faddists, collectors, and target plinkers.

"Some were even bought by people who buckled on a six-gun to watch a television Western," says Sales Mgr. Edward P. Nolan.

After 12 years of prosperity, Sturm, Ruger sales have built up to "several million" annually—not far behind Smith & Wesson's $6-million.

New ground. Introduction of a carbine, which is taking $500,000 of the company's reserve funds for development and production, puts Sturm & Ruger into a more workaday market, less the collector than the meat hunter. It also brings the company up against still bigger com-

For 12 years, Ruger designed popular handguns. Now, carbine takes him into market filled with bigger, tougher competitors. Oil painting of barrels of money reminds Ruger "what we're here for when I get too fond of the guns."

ideas and news

Motor starters offer outstanding dependability — Two years ago, when our engineers designed the bulk out of Allis-Chalmers low-voltage motor controls, they built simplicity into them. With simplicity came exceptional reliability, as demonstrated by a substantial drop in an already low-volume replacement parts business. You can be sure of fewer process shutdowns when you specify Allis-Chalmers motor control—still the most advanced, easiest-to-maintain design in the industry. Sizes from 00 to 9 are available through Allis-Chalmers control distributors.

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Which one of these productive ideas could be working for you?

More-reliable motor controls . . . a low-cost data-handling system . . . speed changers for corrosive atmospheres. These examples demonstrate the extra value that is standard with A-C . . . the greater efficiency and the added productivity which are yours when you buy A-C products, systems and services. Call your Allis-Chalmers representative for details on A-C "worth-more" features. Or write Allis-Chalmers, Industrial Equipment Division, Milwaukee 1, Wisconsin.

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A-1573

ALLIS-CHALMERS

petitors, long established in the field—such companies as Savage Arms Corp., Remington Arms Co., Inc., and Winchester-Western Div. of Olin Mathieson Chemical Corp.

"The carbine is a major diversification for us," says Ruger, who is president of the Southport (Conn.) company, "but we had to do it. Our sales have been static, and growth has always come with new models. The market for our guns is most readily achieved by bringing in something new. You can't flog it."

Ruger has set an initial target of 25,000 sales of the new gun.

Something old, something new. As in his handgun designs, Ruger has designed into his new carbine some attractive features of yesteryear to intrigue today's buyer. Thus, his Deerstalker carbine has two features that are new and startling in a commercial carbine—it is semi-automatic, and it fires a .44 caliber magnum cartridge—but its stock is modeled on a century-old shape, and its barrel band is another echo of the 19th Century.

Likewise, the resemblance of Ruger's first automatic pistol to a Luger was more than accidental. In its resemblance to a Luger, says Ruger, "it looked right—it looked like a gun ought to look." At $37.50, the price was low, but Ruger built as much quality into the pistol as he could. He wound up selling 250,000 of them, and even today can't keep up with the orders.

Ruger, with an assist from TV, is credited with reviving a market for the single-action six-gun. Because the shooter has to cock the hammer after each shot, lawmen and military men have long since adopted instead the double-action revolver, in which the shooter merely pulls the trigger. But Ruger has shipped 225,000 of his .22 caliber Single-Six line, introduced in 1951.

Another revolver, the .22 caliber Bearcat, is a cross between an 1845 Colt and an 1870 Remington. It sold so well its original price of $49.50 was brought down to $39.50 by the economies of volume production.

Small arms lines. Until the new Deerstalker carbine came along, at a price of $108, the Sturm, Ruger catalogue was made up of only four small arms lines: the original automatic pistol, at $37.50; the Single-Six .22 at $64.50 to $75.50, depending on the model, the Blackhawk line, introduced in 1955 for heavy-caliber center-fire cartridges such as the .357 and the .44, selling for $87.50 to $116, and the Bearcat.

Every one of these was an instant success. As evidence that low price doesn't preclude quality, Ruger offers the fact that his service department for years has been staffed by only one man.

With retail prices of $39.50 for a revolver or $37.50 for an automatic pistol, how can Ruger have enough left over for profit after allowing the jobber an 18% to 20% markup and a retailer 25%? Volume is one answer. But part of it is, as he puts it, taking advantage of "technological and metallurgical advancements and production methods."

Ruger won't specify what most of these are—he even excludes visitors from certain sections of his plant—but the automatic pistol is one example of what he means. Its grip is made of two heavy stampings welded together, and bought at less cost than a single piece. Ruger says there's no loss of strength or quality in the welding. Critical parts, such as the revolver frames of high-grade chrome molybdenum alloy, are on the other hand held to standards far beyond the minimum, and they are correspondingly costly.

Edging into business. Ruger and Sturm, who died suddenly in 1951, got into business through their connoisseur interest in guns. Ruger, a machine gun designer, was fascinated by "well-designed, well-made, and well-engineered things" (the same reason that today he drives a Ferrari sports car and a 1928 Bentley racer). Sturm was interested in guns "in a shooter's way," says Ruger. He also painted and wrote. He designed the company's trademark, an eagle, and the packaging; he also put up the initial capital.

In Southport, the two men rented a small wooden frame building and produced the .22 automatic pistol, selling directly through ads. In the first year, they shipped 1,000 guns and, says Ruger, "the backlog seemed endless."

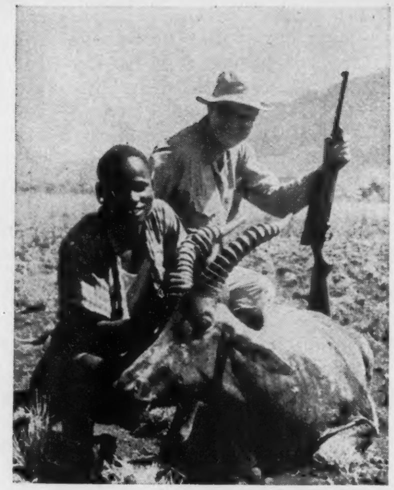
Growing up. As the company expanded through addition of new product lines, it outgrew both its plant and its management and sales setup. In 1959, it moved to its own 19,000-sq.-ft. plant, to which was added 50% more space last year. It has well over 100 employees.

Sales, which once were a direct transaction with the consumer, now require a sales manager, Edward Nolan, who works through traditional distribution channels—the jobber and the retailer. Nolan recently extended distribution to Europe, Australia-New Zealand, and Latin America.

Although Ruger still keeps close watch on factory operations, production is now the responsibility of Vice-Pres. Michael J. Horelik.

All funds needed in the company's

Half a million dollars is invested in the new carbine. Funds all came from the company's own reserve account.



To show what new carbine can do, Ruger used it on trip to Africa.

expansion have been internally generated. Ruger says he is not against borrowing for expansion, but explains: "I was a poor credit risk in 1949—I couldn't borrow a cent. We raised our own funds then, and I'm going to do it that way again."

The carbine. His big gamble now is with the marketing of the carbine against the established U.S. and European makers. Gun experts, however, view his chances as good. If he is successful, Ruger might try to market a shotgun next.

The carbine is intended to appeal particularly to the deer hunter. It is light in weight, 5 lb. 12 oz. Since hunters get a shot at a deer mostly in brush country, the low velocity slug (1,850 ft. per sec.) promises less deflection by twigs and leaves than a high-velocity rifle cartridge might suffer in such terrain.

The semi-automatic feature also gives the shooter a second shot, though the traditional lever-action carbine is often able to do this, too.

To promote the gun, Ruger took it to Africa to try it out on medium-sized game. His advertising reminds the thousands of owners of his Blackhawk .44 caliber revolver that the same cartridge can be used in both guns, so that the man with two guns needs but only one size cartridge.

He is also trying to persuade a large cartridge manufacturer, who he says is "giving it serious thought," to repackage .44 caliber ammunition to make it obvious the cartridges are cheaper than the regular .30-30 carbine shell. The .44 costs 1¾¢ less per cartridge, but is usually packed 50 to the box while .30-30 shells are packed in boxes of 20, making their price seem deceptively lower. **End**

N&W rolls to merger

Other railroads may be stumbling en route to the altar, but coal-rich Norfolk & Western seems to have a clear track ahead to wedding with Nickel Plate

Of all the railroad merger schemes now in the hopper, none seems to be enjoying such smooth rolling through early Interstate Commerce Commission hearings as the one master-minded by Stuart T. Saunders, president of the Norfolk & Western Ry. (cover and right).

Elsewhere across the land, managements are bickering so heatedly that the entire railroad merger movement appears to have ground to a shuddering halt. But the proposed marriage of the N&W with the New York, Chicago & St. Louis RR Co. (Nickel Plate), along with the lease of the Wabash RR, is marked by an extraordinary lack of opposition.

There has been nothing like it since the practically unopposed merger of the N&W and the Virginian in 1959.

I. On the track

This is no accident. It stems mainly from two interrelated factors: the personality of Saunders and the prosperity of his railroad.

"Stuart is a trader," says one N&W officer. "Whenever he sees opposition developing, instead of coldly trying to run over it, he sits down and tries to work out mutually agreeable terms."

Unlike many railroad presidents engaged in merger talks, Saunders has the cash and favorable long-term outlook for his stock with which to trade.

Contrasted with the fights over the Baltimore & Ohio that the Chesapeake & Ohio and New York Central are having, or the hassle that Southern Pacific and Atchison, Topeka & Santa Fe are having over the Western Pacific, the N&W-Nickel Plate merger is peace and tranquility.

And contrasted with the virulent opposition by labor unions and communities in the Great Northern-Northern Pacific-Burlington get-together, the Saunders-run merger is nothing short of serene.

Along the lines of the N&W, Nickel Plate, and Wabash there is practically no major community opposition. And the Railway Labor Executives Assn., which has gone on record opposing all mergers, is deferring specific objections to this one until later.

Precedent-setting deals. If the history of the N&W-Virginian merger gives any clues, and if Saunders' passion for thorough preparation is taken into consideration, a deal that will satisfy labor almost certainly is being threshed out. If so, it will certainly dismay other, poorer, merger-bound managements that will be hard-pressed to meet the precedents Saunders will set.

Generally speaking, the reason railroad managements—all of whom favor mergers in general—oppose specific ones so vigorously is that they fear being surrounded by a huge, new competitor. They worry about substantial traffic diversion, and the probability that many of their old traffic gateways will forever be shut when their former connecting lines join the merged road.

Saunders recognizes this, and made traffic agreements with the Western Maryland and the Gulf, Mobile & Ohio. In return for supporting the N&W merger, Saunders promised that their present traffic will not be affected.

He also agreed to enter into negotiations to acquire the Pittsburgh & West Virginia and to affiliate with the Erie-Lackawanna—if his merger is approved. In return, they, too, are now supporting the merger. Negotiations reportedly are being held to work out some deal with the Akron, Canton & Youngstown to satisfy both it and N&W.

Holdout. In short, almost all the railroad opposition has practically evaporated—or been eliminated—except that of the mighty New York Central. About this, Saunders says, nothing can be done. But even the Central was strangely silent when its opportunity came to cross-examine at the most recent hearings. This may have been because the Central reportedly is once again talking merger with the Pennsylvania RR, or perhaps because at last it and the C&O are making peace.

"If conditions don't change between now and December, when hearings resume," says a Central officer, hedging broadly, "we will present a vigorous case in opposition to the N&W-Nickel Plate merger."

II. Dollars from coal

How is it that the N&W is so prosperous that it can afford to offer liberal terms right and left in return for support?

The Norfolk & Western has to rank high on anyone's list of railroads that are run the way railroads ought to be run. Aided by the geological good luck of having some of the world's finest metallurgical coal along its right of way, it is a monument to the proposition that all railroads aren't necessarily going to slide into bankruptcy, nationalization, or oblivion.

Moneymaker. The railroad has almost always made money. Last year the N&W had a net income after taxes of $61.1-million on total revenues of $241.3-million—a spectacular profit margin of 25.34%.

This year, despite the recession, the road expects earnings to be comparable to 1960. Costs are under such tight control that in August the amount of each dollar of operating revenue spent for operations was only 54.7%, down 5.8% from August a year ago. The operating ratio for all railroads last year, by contrast, averaged 79.5%.

"Our railroad," says Saunders, "represents the nearest approach to efficient mass transportation there is in the United States."

Modern fleet. The N&W has dense

Pres. Stuart T. Saunders (right) hurries to appointment. He has busy schedule of calling on shippers and stockholders.

Gondolas haul millions of tons of coal each year over Norfolk & Western rails. N&W, which has 200 coal mines along its tracks, often makes up 200-car trains.

traffic over reasonably long hauls. It has high utilization of equipment. It has the most modern fleet of diesels in the country, in part because the previous management held out so long for steam. It also has, according to Saunders, the highest percentage of centralized traffic control and the greatest number of hot box detectors. And all its principal yards are now electronically controlled.

In 1960 alone, it spent $41.6-million on new equipment and facilities, and it paid for it all in cash.

Fortune in coal. The primary reason for all these marvels is coal—millions upon millions of tons of coal in solid trains thundering down the right-of-way from mines high in the Alleghenies to Tidewater Virginia.

Relative to most freight hauled by railroads, coal is cheap to handle. Coal cars can be loaded by chute and unloaded simply by being turned upside down. Once a train of coal cars is made up on the N&W—often in 200-car lots—put on the main line, and headed in the right direction it can go. Much of the N&W coal has only one destination: the road's gigantic dumping facility near Norfolk.

In August alone, the N&W loaded 46 ships of coal for Japan, its largest overseas customer. The Japanese, who are expected to import 6.5-million tons of coal this year, will be importing nearly 15-million tons by 1970, according to Saunders.

III. In the cab

Having over 200 coal mines along the railroad, two of which can each produce over 500 cars a day, isn't the entire story. The N&W is made even more profitable by management hard work.

For the president of a railroad, Saunders spends an unusually small amount of time watching trains and inspecting track. Instead, he is almost constantly off in the company airplane, calling on big shippers—or prospective big shippers. In recent months, he has devoted much of his time to calling on major stockholders not only of his road but of the Nickel Plate and the Wabash. Characteristically, he has received 99% stockholder approval of the proposed merger.

Lately, he has also been visiting presidents of other railroads, labor unions, and even community leaders.

Pacemaker. Saunders devotes 14 hours a day to his railroad. He has a tremendous grasp of detail. He delegates very few decisions but a great deal of staff work.

"He has me working seven days a week," declares an official, "but I can't complain. He works eight."

Born in McDowell, W. Va., 52 years ago, Saunders came up through the legal department of the N&W, which he joined from a Washington law firm in 1939. He was named to the presidency of the railroad in 1958.

Management group. Unlike many railroad presidents who rose through the operating department, Saunders is little known, and perhaps even slightly feared out on the line. That's partly because he is so infrequently there. The official who does operate the railroad in the true sense of the word, and who is known throughout

the system, is Harry C. Wyatt, vice-president and general manager.

Typical of the young, hard-working management group that Saunders has brought to the railroad from outside is Hamilton M. Redman, vice-president (finance). Before coming to the N&W, Redman was a vice-president of Berkshire Life Insurance Co.

Unlike his counterparts in many another railroad, Redman has N&W cash, of which there is an uncommonly large amount, at work all the time. Not satisfied to put it in low interest bearing short-term governments, he puts much of it into commercial paper, preferably that of N&W customers.

IV. Round the bend

In assessing his railroad, Saunders gives tremendous credit to the staff and line management for making a basically profitable situation still more profitable.

But profitable as the road is—with its approximately $8-per-share earnings and $5 dividend—Saunders is dissatisfied. "We've got to diversify our business to make the railroad stronger, particularly on a long-range basis," he says. "We're not selling coal short. We're increasing our participation in coal traffic. But our base must be broader than it is now."

The N&W president looks anxiously toward the day when more coal may be sent by pipeline, or there may be greater transmission of high-voltage electrical energy, which he refers to as "essentially transportation of coal by wire."

"Moreover," he says, "we know that with advancing technology, less and less coal will be needed to make a ton of steel or a kilowatt of electricity. And it is still too early to say what proportions of our energy market will eventually be supplied by nuclear energy, solar energy, or fuel cells."

Expansion drive. In 1960, bituminous coal and coke accounted for 78.4% of the road's tonnage and 71% of its freight revenues. To handle the increasing coal business it foresees, over the "short" range, the N&W is spending $25-million on a new coal dumping pier at Norfolk. It has also recently placed a third order for 1,000 coal cars to be built in its own shop at a cost of $12-million. Both projects, like almost everything else on the N&W, will be paid for in cash.

Big as these efforts to build the coal business are, however, the biggest efforts are being made in getting the ratio of coal traffic to mer-

chandise down to about 50-50. Part of this is coming from an intense drive for industrial development along the present N&W right of way—a drive in which Saunders takes a personal hand.

Last year, 236 new or enlarged manufacturing plants and distribution warehouses were located along the road, adding 24,000 cars a year to the N&W potential. So far this year, activity for the Industrial Development Dept. is far heavier than that reported for the same period last year.

The biggest part of the drive, however, will be in the proposed merger. The Port of Norfolk has become the largest grain port on the Atlantic Seaboard, says Saunders. If the Wabash and Nickel Plate become part of the N&W, Saunders looks to the day when solid grain trains will be interspersed among the coal trains—traveling on N&W rails all the way from Omaha and Kansas City.

Bigger territory. Another problem on the N&W is that, in Saunders words, "it has a wonderful traffic production system but a relatively poor traffic distribution system." The only big cities on the line are Norfolk, Columbus, and Cincinnati. A merger resulting in a 7,200-mile system extending from the grain states, through the industrial Middle West to the Atlantic would allow the N&W to reach badly needed new producing and consuming points.

By means of the merger, Saunders hopes to save the three roads $27-million a year before taxes at the end of five years, improve service to shippers, and generate new traffic to such a degree that the profitability of the present N&W will be extended throughout the enlarged system.

Railroad colossus? Since 32% of the N&W and over 86% of the Wabash is owned by the Pennsylvania RR, the question inevitably arises: Is this part of a grand scheme whereby the Pennsy will one day emerge a railroad colossus? Both Saunders and the Pennsy vigorously deny that this is the case. And they have at least one argument to support their denials.

The Pennsylvania RR—the country's largest in terms of total assets—has 13.2-million shares of common stock outstanding with a recent market valuation of $194.2-million. The relatively tiny N&W has 7.4-million shares outstanding. The recent market valuation on these, however, was $809.2-million.

It would be hard for the struggling Pennsy to swallow the affluent Norfolk & Western. **End**

William P. Lear, long an aircraft supplier, now plans to build his own planes

NEW PRODUCTS

A new executive jet plane

Lear has set up a Swiss company to assemble a jet that is impressive in performance and in low cost per seat. He hopes in a couple of years to set up assembly in the U. S.

William P. Lear, Sr. (picture), founder and chairman of Lear, Inc., of Santa Monica, Calif., has spent most of his 45-year career in making radio and navigation equipment for airplanes that other people build. Even the planes that bear the Lear name, such as the Learstar, have always been souped-up versions of other people's designs.

Now Lear plans to build a plane himself. He and his wife have invested about $6-million in founding Swiss American Aircraft Corp. of Saint Gallen, Switzerland, to build the sleek executive jet he is modeling in the picture.

Plain vanilla. SAAC, which has no connection with Lear, Inc., will assemble the plane to its own design from components bought in Europe and the U. S. Lear calls it "a plain vanilla, Volkswagen-type jet business transport," though the aircraft industry is impressed that no other plane planned or in production can match its combination of performance and per-seat cost.

Its price of $350,000, plus U. S. duty of around $12,000, would buy a couple of hundred Volkswagens, but it is most competitive in a plane of the SAAC-23's promised performance. The SAAC-23 will carry seven or eight persons, including pilot or pilots, at a cruising speed of 500 mph. for a range of 2,000 mi. The price includes all navigation and communication aids, instruments, and interior fittings.

The cabin will be pressurized, and the plane is designed to operate with a minimum of ground support equipment. Its engine starting system is built in, and its heating and cooling equipment works even while the engines are stopped.

Production plans. According to Lear, 25 planes are scheduled for production by spring of 1963, and the first will be ready for certification flights by next April. He hopes for certification by the end of next year.

The SAAC-23 will be powered by General Electric CJ-610-2B engines of 2,400-lb. thrust. Lear, Inc., will supply the autopilots and navigation equipment, B. F. Goodrich Co. the brakes. Heinkel in Germany will build the fuselage and tail assembly. In Switzerland, where the plane will be assembled, Flug-und-Fahrzeugwerke Altenrhein will make the wings and wingtip tanks, Thommen the hydraulic system components, and Saurer the auxiliary power turbines. By the end of 1963, Lear plans to open an assembly operation in the U. S. **End**

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Is the U.S. ready for a new trade policy?

When Under Secy. of State George W. Ball last week launched an Administration campaign for a sweeping liberalization of U. S. trade laws, it became clear that Pres. Kennedy's top aides are planning a fundamental change in U. S. foreign policy as well as in our tariff procedures (page 27).

Whether the Administration's ultimate goal is industrial free trade between the U. S. and the expanding European Common Market (with yearly tariff concessions generalized to other free world nations), or whether the goal is actual U. S. membership in an "Atlantic Common Market," the political implications are enormous. To reach either goal, moreover, the President would have to be given new tariff-cutting authority on an across-the-board basis to replace the item-by-item approach now used under the Reciprocal Trade Agreements Act.

These are far-reaching propositions for the Administration to put before the nation. For all their merit, they are bound to engage the people of this country in debate for several years ahead, not least because of their potential impact on domestic economic policy and on our balance of payments.

If you look strictly at our prospective trading position vis-a-vis Europe, it is not difficult to understand why the Administration plans to ask Congress to consider new trade legislation by next June, before the Trade Agreements Act expires. By that time, Britain and two or three other nations may have completed their negotiations for entering the European Common Market, putting the U. S. in a position where it will have to deal with a rapidly unifying market of at least 250-million.

If our exports to Europe are not to suffer—and this area is by far our largest market—we must be able, in Ball's words, "to strike much broader and more ambitious bargains on behalf of U. S. industry."

But more is involved in the new Administration policy than maintaining an open competitive trading system and thereby protecting U. S. export markets. Our political and military strategy requires that there should be no wide divergence of commercial and economic policies between the U. S. and the enlarged Common Market in Europe.

Costs and competition

If the reasons for adopting a new trade policy seem almost overwhelming, so do the problems that stand in the way. Unless Pres. Kennedy is ready to face up to these problems, he would be well-advised to resist the growing pressure within his Administration to bring the trade issue to a head in Congress next spring. The President has not yet committed himself personally on the matter.

Among the basic problems that he must face, perhaps the most important is the question of relative cost levels in the U. S. and Western Europe. All the evidence, including the flow of U. S. capital into European production facilities, suggests that at present exchange rates our manufacturing costs generally are well above those of Britain and West Germany (our two largest customers in the area), and that they are higher mainly because of a three-to-one differential in wages. Unless this differential is narrowed in the next two or three years, U. S. industry can hardly expect to gain from an exchange of across-the-board U. S. tariff concessions in return for cuts in the common external tariff of Europe's enlarged Common Market. U. S. industry as a whole would undoubtedly prefer to retain its present level of protection, while investing inside Europe's new common-tariff wall.

Because of our cost problem, no glib comparison can be made between the trade benefits the British can expect from entering the Common Market, where costs are much the same as Britain, and those the U. S. might hope for. Moreover, the British expect their move to have a deflationary effect on their economy for the short run. Unless unemployment drops substantially in the U. S., would Kennedy be prepared for the same result here?

Drain on dollars

There is no way, either, of ignoring a related problem—the balance-of-payments implications of free trade in industrial goods. Even now, this country is unable to maintain a large enough surplus of exports over imports to cover our other international payments—a fact that is becoming apparent as our over-all payments deficit threatens again to reach a $3-billion annual rate (page 29).

To be sure, the impact of the new trade policy would hardly be felt on our balance of payments for a year or two after new legislation had been passed. Indeed, the new legislation might have the immediate effect of slowing down U. S. investment in Western Europe. But before this country can have any assurance that our balance of payments is under control, and the dollar secure, it will also have to take stringent steps to cut down our foreign aid and overseas military expenditures.

If the Administration is not ready to take these measures, and to do everything possible to reduce the threat of a wage-price spiral at home, it had better postpone any basic change in our trade policy. Otherwise, we may end up with no choice but to deflate our economy or devalue our currency.

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